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Interprovincial Cooperation in Negotiation of the Fiscal Arrangements and Established Programs Financing Act, 1976.

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The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies and Research, for acceptance, a thesis entitled ..Interprovincial Co-operation in Negotiation of the Fiscal Arrangements and Established Programmes Financing Act, 1976..
submitted by ..Barbara J. Anderson..........................
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DEDICATION

My thanks and appreciation to Dr. J. Peter Meekison for his support, guidance, and encouragement as a professor, supervisor, employer and friend. Also to my three boys who gave so willingly of time that was rightfully theirs in order that Mother could fulfill a dream.

ABSTRACT

This paper focuses on the 1976 intergovernmental negotiations concerning the renewal of the Fiscal Arrangements Act and the development of the Established Programs Financing Arrangements as an example of the intergovernmental policy-making process. The Canadian federal system in recent years has undergone widespread changes in terms of intergovernmental activity. In looking at the 1976 period, the dynamic quality of the negotiating process is stressed, with emphasis put on the issues, the institutions, the political resources, and the strategies and tactics.

In 1976, for the first time in federal-provincial financial negotiations, the provinces presented a joint position on the major issues. This paper examines the impact of such a change on the negotiations and looks at the likelihood of interprovincial co-operation becoming a more permanent feature of intergovernmental negotiations. This interprovincial co-operation was a most distinctive feature of the 1976 negotiations, distinguishing them from other negotiations in the past. The nature of the issues, the negotiating strategy of the federal government, the impact of external factors, the temper of federal-provincial relations in general, the availability of forums and expertise are all pinpointed as aiding the development of such a position.

It is shown that the presentation of a joint provincial position changed both the perceptions and reality of the federal-provincial negotiations. It was only after the presentation of the provincial consensus that real federal concessions were offered. The process of interprovincial bargaining had a profound impact on the resolution of the financial arrangements. The negotiating process provided the opportunity for the provinces to put direct pressure on the federal government in terms of their goals and priorities.

Interprovincial co-operation is examined as a potentially powerful aspect of federal-provincial negotiations. In 1976, a combination of factors provided the impetus and opportunity for the development of such co-operation leading to a joint proposal. Evaluation of the probability of such co-operation becoming a more permanent feature of federal-provincial negotiation remains difficult. However, there is little doubt that the example of the 1976 period will have some impact on future negotiations. The participants are now aware that an interprovincial consensus on an issue of fundamental importance is possible.

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THE MAJOR ISSUES

A. INTRODUCTION

In retrospect, the 1970's will be seen as a period of significant development within the Canadian federal system. Although the British North America Act divided the responsibility for governing between the federal and provincial governments, from the beginning the system has had to manage an ongoing conflict between the aspirations and interests of its different political units and has had to face the problems arising from divided jurisdictions. Such conflict has necessitated a high level of interaction between federal and provincial governments. In the post-war period, this interaction has become so extensive that the process has become more formal, more institutionalized and more central to policy-making in Canada.

For the purpose of this paper which will examine the Canadian federal system in terms of the intergovernmental policy-making process, the definition of M.J.C. Vile offers many useful insights.

> Federalism is a system of government in which central and regional authorities are linked in a mutually interdependent political relationship. In this system a balance is maintained such that neither level of government becomes dominant to the extent that it can dictate the decisions of the other, but each can influence, bargain with, and persuade the other .... The functions of

> government will be distributed between these levels (exclusively, competitively or co-operatively, initially perhaps by a constitutional document, but thereafter by a political process ....[1]

In recent years, the Canadian federal system has undergone widespread changes in terms of the process of intergovernmental activity and in the relative strength of the participants. As the role of government has expanded and the interdependence of jurisdictions increased, the need for intergovernmental activity and joint decision-making has become more evident. One of the most discernable characteristics of contemporary Canadian federalism is the high degree of intergovernmental activity, of bargaining and negotiation. This process which has been termed "co-operative federalism", "administrative federalism", "executive federalism", and "federal-provincial diplomacy" has developed and evolved over the last two decades and has become a fundamental process within which policy is developed in Canada. In addition, the provinces have become more aggressive in their demands to have more control over their own areas of jurisdiction and more recently to have more of a voice in the development of those national policies having obvious impact on the provinces.

This paper will stress the dynamic quality of the intergovernmental decision-making process; it is a process which is always changing and evolving. Focus will be put on a case study, the 1976 intergovernmental negotiations concerning

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[1] M.J.C. Vile, The Structure of American Federalism (Oxford, 1961), p. 199.

the renewal of the Fiscal Arrangements Act and the development of the Established Programs Financing Arrangements. Emphasis will be put on the development of a high degree of inter-provincial co-operation which in 1976 led to the development for the first time in financial discussions of a provincial consensus position within the context of federal-provincial negotiations.

This study will focus on the 1976 financial negotiations for additional reasons. Fiscal arrangements represent the most wide-ranging and complex area of federal-provincial negotiations with the possible exception of the constitutional discussions. Although fiscal relations have undergone frequent renegotiations in the past, it remains a difficult area to find a balance between federal and provincial desires and needs; federal and provincial responsibilities and revenues. It is an area of basic importance to the political system as two orders of government struggle for their share of fiscal resources. The financial package which emerged from the 1976 negotiations represents an agreement on a wide range of subjects. Furthermore, for the first time, the financing of major joint programs was firmly tied to the other fiscal arrangements.

B. FISCAL FEDERALISM

One of the most difficult and fundamental problems of a federal state is the creation and maintenance of a viable

fiscal system. Such a system must effect a satisfactory settlement of the division of revenues and responsibilities between governments. The problems of fiscal federalism are concerned with the imbalance between the functions and sources of revenues between the two orders of government as well as with the differences in fiscal capacities of the various component units.

In Canada, the problem of achieving a satisfactory fiscal adjustment has been aggravated by various trends. The original settlement which appears in the British North America Act made a fairly precise distribution of responsibilities as between federal and provincial governments. Provinces were essentially limited to direct taxation for purposes of raising provincial revenues while the federal government was virtually unlimited in its capacity to raise money.

However, a system with a relatively inflexible division of revenues and responsibilities was quickly put out of balance, as some issue areas gained prominence over others, as new areas appeared, and as some sources of revenues began to generate previously unpredicted levels of income. The rapid growth in expenditures in policy areas falling under provincial jurisdiction was not accompanied by an equivalent rapid increase in provincial access to tax revenues. Pressure was thus generated for increased transfers from Ottawa. The extension of the range of government activity at all levels has also required the distribution of ever increasing shares

of financial resources through the fiscal mechanism. In addition, the differences in size, wealth and economic systems of the various units has necessitated some adjustment between fiscal capacities. The recognition of the need for such adjustments has become strongly entrenched in the Canadian political system. The adjustment of regional disparities, once regarded as the price for holding the country together, has come to be supported on broader social grounds as well.[1]

Over the years, intergovernmental fiscal arrangements in Canada have proven remarkably flexible in adapting to the changing needs of the two levels of government. The arrangements have also recognized and attempted to overcome difficulties arising from some provincial governments being more capable than others in fulfilling their responsibilities. However, it is necessary to recognize that the financial compromise has generally been determined by political bargaining and negotiation rather than according to any clear economic or financial principles.

> A high degree of political skill has been needed to adapt the structure of government, and its all important financial foundations, to the rapidly changing conditions of the past .... No aspect of this evolution has offered a greater challenge to goodwill and ingenuity than the financial.[2]

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[1] John F. Graham, A. W. Johnson and J. M. Andrews, Intergovernmental Fiscal Relationships, Canadian Tax Paper No. 40 (Toronto, Canadian Tax Foundation, 1964).

[2] A. Milton Moore and J. Harvey Perry, The Financing of Canadian Federation, the First Hundred Years, Canadian Tax Paper No. 43 (Toronto, Canadian Tax Foundation, 1966).

Since the end of the Second World War, there has been a strong and notable swing away from the extreme centralization of the war-time federal-provincial financial settlement. During this period, intergovernmental fiscal relations have been based on a series of tax rental agreements (1954-1957), tax sharing agreements (1957-1963) and finally, the Federal-Provincial Fiscal Arrangements first implemented in 1962. The essence of the Fiscal Arrangements was a three part program consisting of a system of federal tax abatements in the income tax fields; the continuation of the system of equalization payments; and a stabilization plan to maintain each province's basic yield from the three standard taxes.[1] In 1967, a technique of tax point transfers was introduced for the shared financing of post-secondary education.[2]

The Fiscal Arrangements Act 1972-1977, which was to be the reference point for most of the 1976 negotiations, provided federal legislative authority for:

1. Provincial Revenue Equalization Payments;
2. Provincial Revenue Stabilization Payments;
3. Tax Collection Agreements;
4. Provincial Tax Revenue Guarantee Payments;
5. Transfer Payments with Respect to 1971 Undistributed Income on Hand;
6. Post-Secondary Education Adjustment Payments.

By the beginning of 1976, virtually all of the intergovernmental financial relations were entering various

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[1] The three standard taxes were defined as personal income tax (p.i.t.), corporate income tax (c.i.t.), and succession duties (s.d.).

[2] For further details regarding the development of federal-provincial financial arrangements in Canada, see Appendix A.

stages of negotiation.[1] Closely connected to the financial discussions concerning the Fiscal Arrangements Act were federal-provincial discussions regarding the financing of major shared-cost programs as well as negotiations concerning the renewal of the Established Programs (Interim Arrangements) Act, also due to expire on March 31, 1977.[2] During 1976, the negotiations were not to focus on the philosophical basis of these programs. Rather, they were concerned with the more basic recurring issues of the sharing of revenue sources and responsibilities. The main issues to emerge in the discussions were equalization, the revenue guarantee program and shared-cost programs.

C. ISSUES FOR NEGOTIATIONS

1. Equalization

The purpose of the equalization program as established was to enable all of the provinces to provide a comparable level of basic public services without having to resort to unduly burdensome tax rates. In the 1972 Act, the approach to equalization was based on the representative provincial

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[1] T. Courchene, The New Fiscal Arrangements and the Economics of Federalism presented to Options Canada Conference, Toronto 1977. At stake in these negotiations were roughly 4/5 of the financial flow from Ottawa to the provinces. For the fiscal year 1975-76 this amounted to approximately $6.8 billion out of a total of $8.6 billion.

[2] Established Programs (Interim Arrangements) Act, 1965.

tax system.[1] Under this approach, differences in provincial revenue raising capacity are measured separately for various groups of provincial revenues which taken together make up a tax system that is considered to be typical of provincial tax systems in the country. The federal government then makes payments to those provinces which are below the national average per capita in their capacity to raise revenues. In general, the principle of redistributing income among the provinces has been widely accepted by all governments. A matter of recurring concern with the equalization program is that the method of calculation measures only revenue raising capacities although the objective of the program is stated in terms of the ability to provide services which indicates some consideration of expenditure rates.

In 1973, the sudden escalation of oil and gas revenues created unforeseen problems for the equalization program. Provincial revenues from oil and gas increased by large percentages. In addition, these resources were concentrated largely in Alberta, and to a lesser extent Saskatchewan, which tended to distort a formula based on provincial comparisons. These two factors percipitated large

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[1] This system was introduced in 1967 and renewed in 1972 with changes in the number of revenue sources used. Further details of the program are given in Appendix B. In general a revenue base for each revenue source is used to determine each province's fiscal capacity for that source. This fiscal capacity is then computed on a per capita base to obtain the equalization entitlement for the revenue source. The equalization entitlements, both positive and negative, for each revenue source are summed to yield the total equalization entitlement for each province.

increases in equalization payments by the federal government. As a result, changes were implemented in the 1974-75 fiscal year which made a distinction in oil and natural gas revenues between "basic" and "additional" revenues. The basic revenues were to be equalized in full while the additional revenues were equalized to the extent of one-third.[1]

With the growing federal concern about the rate of growth of equalization payments, as well as this major legislative change to the terms of the formula only two years after it had been renewed, many of the provinces began to fear that the federal government was moving towards the imposition of a ceiling on the annual growth rates of equalization. This was of particular concern to the Atlantic regions where the dependency of provincial governments on their equalization payments cannot be underestimated. Table I shows the per capita payments in 1975-76 under the equalization program.

2. Revenue Guarantee

Another issue which required a great deal of attention and generated most of the tension during the negotiations was the area of the revenue guarantee. In 1972, the federal tax reform created some uncertainty over the revenue yield to the provinces of the new tax system. In order to encourage the provinces to maintain their participation in the tax collection agreements and thereby maintain a unified national income tax

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[1] For further details regarding the equalization formula, see Appendix B.

TABLE I

Equalization Payments 1975-76

Province	Equalization Payments ($000)	Equalization Payments ($/capita)
Newfoundland	197,119	359
Prince Edward Island	47,553	400
Nova Scotia	254,865	310
New Brunswick	200,198	297
Quebec	987,046	160
Ontario	0	0
Manitoba	137,945	135
Saskatchewan	82,065	89
Alberta	0	0
British Columbia	0	0
TOTAL	1,906,791	84

Source: T. Courchene, The New Fiscal Arrangements and the Economics of Federalism, presented to Options Canada Conference, October 1977, p. 323.

system, the federal government had offered to protect them against these uncertainties. The Revenue Guarantee Program provided for compensation to the provinces to replace any unexpected losses resulting from the adoption of the new tax system.

Originally it was expected that any adjustments would be relatively small. The program was established for three years and the differences in the revenue yields of the two systems was not expected to be great. However by 1976, the payments had grown so quickly that they constituted a major intergovernmental transfer. Much of this was due to post-1972 tax changes.[1]

In addition, these payments represented the area of major dispute between the federal and provincial governments. One of the main sources of conflict was the termination of the program. The federal government argued that originally it had been intended as a short term program and thus would expire as planned on March 31, 1977. They argued that the provincial governments had had time to analyze the effects of tax reform and adjust their individual systems accordingly. The provinces argued that they needed ongoing protection against federal tax changes and that an extension of the

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[1] In 1975-76, the total transfers under the revenue guarantee program had exceeded $1B. Examples of reforms introduced after 1972 included the $1,000 interest income exemption, RHOSP provisions, the $50/mo. education deduction and the increase in personal exemption for the elderly. The indexing provisions were ruled ineligible for the revenue guarantee program.

program was required in order to avoid a significant increase in provincial tax rates. They pointed to the significant levels of payments as proof of the necessity for such a program.

A second major issue with respect to the revenue guarantee was the method of calculating the payments.[1] In early 1976, the federal government took the position that the original method for calculating revenue guarantee payments was inaccurate. Furthermore they claimed that the calculation procedure exaggerated the revenue losses actually experienced by the provinces. They announced the initiation of a new system of calculation. The provinces were immediate in their disapproval. They regarded the move as a retroactive betrayal of a federal commitment. Due to a complicated accounting system, certain percentages of the guarantee payments were made in the following years.[2] Thus they claimed the federal announcement would deprive them of retroactive payments which had already been built into their budgetary positions. The unilateral federal action threatened to deprive the provinces of considerable amounts of expected entitlements. More importantly in terms of the negotiation process, the way in which the action was taken annoyed the provinces and was to have profound effects on the climate of negotiations.

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[1] For further details see Appendix B.

[2] For example the 1975-76 payment consisted of the final adjustment for the 1973 entitlement; an interim adjustment to bring payment in respect to 1974 entitlement to 75%, and an interim payment equal to 60% of the 1975 entitlement.

3. Shared-Cost Programs

The other main source of tension in the negotiations concerned financing arrangements for the major federal-provincial programs. Concern was expressed over the amounts of the transfer as well as the mechanisms for transfers. In the post-war years, the use of the conditional grant was one of the federal government's major social policy instruments. The main thrust of such programs since the 1960's has been in the policy areas of health, social services and post-secondary education. In general, the conditional grant is a money subsidy paid by the federal government to provincial governments in order to stimulate the provision of a public service which meets certain basic national standards. Although conditions vary from program to program, most of the conditional grant programs in Canada exhibited certain characteristics: the policy area is usually within provincial jurisdiction; the provinces usually pay about 50 per cent of the program costs; and the program must meet certain minimum standards which are usually the same in every participating province.

The philosophy and rationale behind the federal government's movement into areas of provincial jurisdiction through shared-cost programs was outlined in a constitutional paper in 1969. The use of the federal spending power was justified primarily through arguments based upon the growing interdependence of government units in a modern federal state and the consequent need to establish certain national standards.

> The case for a federal spending power for the purpose of enabling Parliament to contribute toward provincial programs in fields of provincial jurisdiction is to be found in the very nature of the modern federal state - in its economic and technological interdependence, in the interdependence of the policies of its several governments, and in the sense of community which moves its residents to contribute to the well-being of residents in other parts of the federation.[1]

However, in the 1970's federal concerns about the method of financing such programs had grown. Due to the open-ended nature of the programs the rate of growth of federal contributions was determined to a large extent by provincial decisions. Provincial reservations about the concept of conditional grants were also becoming more evident. The provinces have opposed the use of shared-cost programs on constitutional grounds, maintaining that the policy areas of such programs are all provincial responsibilities. Arguments were made that decisions regarding expenditures on shared-cost programs had taken place outside of the provinces' planning processes. The large percentage of the provincial budgets tied to such expenditures lessened the flexibility and planning freedom of the provinces. Criticisms were expressed over the lack of adequate consultation with the provinces prior to the implementation of such programs. In addition, the federal government had tended to make unilateral changes both in policies and in financial support. The lack of provincial budgetary and administrative control over programs

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[1] Pierre E. Trudeau, <u>Federal-Provincial Grants and the Spending Power of Parliament</u> (Ottawa, Queen's Printer, 1969), p. 7.

so dramatically affecting their citizens had been a concern frequently expressed by the provinces.[1]

Over the years, various proposals had been made in respect to changing the financing arrangements of the major programs. In this respect, it is important to see the 1976 negotiations on established programs financing as a culmination of an ongoing process. In 1966, the federal government proposed withdrawing detailed conditions from established programs accompanied by an equitable transfer of fiscal resources to the provinces.[2] Although Quebec strongly supported this proposal, there was little response from the other provinces. By the early 1970's, federal concern over the escalating payments in respect of the major programs was growing. In the spring of 1973, the federal government presented a series of proposals to the provinces.

On the health issue, the proposal which came to be known as the Lalonde-Turner Formula suggested that the 50 per cent cost-sharing formula for Hospital Insurance and Medicare[3]

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[1] Honourable W. Darcy McKeough, Supplementary Papers on Federal-Provincial Finance (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972). Also provincial presentations to various First Ministers' Conferences 1960 to 1975.

[2] For details on the proposal see Richard Simeon, Federal-Provincial Diplomacy, University of Toronto Press, 1972.

[3] Hospital Insurance and Diagnostic Services Act was introduced in 1957 to ensure all residents of Canada have access to necessary hospital services. The Medical Care Act was introduced in 1966 to ensure access for all Canadians to necessary medical care services.

be replaced by a formula under which payments would be made on a per capita basis, with the annual increase tied to the growth of GNP rather than program costs.[1] Such payments would be made in the form of both tax transfers and cash payments. After serious consideration, this proposal was rejected by the provinces in the fall of 1973 as being "too risky and financially inadequate."[2] However, they did indicate a willingness "to negotiate changes in cost-sharing of high cost services in exchange for federal sharing in programs not now supported."[3] A working committee of officials was thus established in 1975 with the mandate to find some means of controlling the rate of rising costs while at the same time protecting the basis of the programs. During these negotiations, the federal government made several unilateral announcements which annoyed the provinces. In his June 23, 1975 budget, the federal Minister of Finance, John Turner, had announced the federal government's intention to give the necessary five years' notice to terminate the agreements under the Hospital Insurance and Diagnostic Services Act which would expire July 15, 1980. A second budget measure aimed at more effective cost control was a ceiling on the per capita growth of federal

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[1] A. S. Rubinoff, Federal-Provincial Relations - Is Our Conduct Changing, presented to Annual Conference, Institute of Public Administration of Canada, Victoria, British Columbia, September 1977, p. 3.

[2] For details of these discussions see "Federal-Provincial Fiscal Reforms", Budget Paper, Ontario Budget 1977, p. 7.

[3] Rubinoff, Federal-Provincial Relations, p. 13.

contributions under the Medical Care Act.[1] Post-secondary education payments had previously been limited to a 15 per cent annual growth rate.

The provinces were unanimous in their opposition to these announcements, emphasizing in particular the lack of prior intergovernmental consultation. The provincial Ministers of Health, meeting on August 18-19, 1975, issued a communique unanimously opposing the unilateral decision of the federal budget proposals and calling for a joint meeting of Ministers of Health and Finance in order to reach some agreement in principle on the basis for future sharing of health costs. In August at the 16th Annual Premiers' Conference in Newfoundland, the Premiers expressed concern about the implications of the budget announcements and issued a communique which called upon the Prime Minister:

> ... to convene a Conference of First Ministers to consider the present shared-cost programs with particular reference to the fields of Hospital Insurance and Medical Care, ... and to consider ways in which the Government of Canada and the Provinces, together, can control the costs of shared-cost programs in the most effective manner, consistent with desirable standards of service.[2]

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[1] Originally stated at 13 per cent in 1976-77, 10½ per cent in 1977-78 and 8½ per cent in 1978-79 and future years.

[2] Communique, 16th Annual Premiers' Conference, St. John's, Newfoundland, August 1975.

On the post-secondary financing issue,[1] the federal Minister had made a proposal to the provinces in May 1973. The Faulkner Formula proposed the fifty-fifty cost-sharing formula be replaced by a system of per capita grants escalated at 7 per cent per annum plus the rate of growth of the 18-24 year old age groups in each province. This proposal was rejected immediately chiefly on the grounds that the financial settlement was not great enough.[2] As a result the arrangements concerning post-secondary education financing were extended for a further three years, until March 31, 1977.

In the interim, the provinces, through the Council of Ministers of Education, established a Task Force on the Financing of Post-Secondary Education, which undertook an evaluation of the financial implications of various financing alternatives. On August 12, 1975, the Council of Ministers of Education wrote to the federal government expressing concern over the short amount of time left to discuss new arrangements and calling for the immediate initiation of discussions on this subject.

Thus in 1976 the federal government and the provinces

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[1] The federal contribution to each province was composed of a tax abatement equal to 4.357 points of personal income tax and 1 point of corporate income tax including associated equalization, associated revenue guarantee payments plus a cash adjustment payment to bring the total transfers to 50% of eligible expenditures or the amount of the per capita grant. Beginning in 1972, a 15% annual ceiling on the growth of aggregate of the federal contribution to all provinces was imposed.

[2] Rubinoff, Federal-Provincial Relations, p. 13.

entered the negotiations on shared-cost funding with their positions fairly well articulated. The federal government's primary concern related to the lack of control over rapidly rising transfers. This concern was heightened by the inflationary pressures of 1975-76.[1] Ottawa's second major concern was with the unequal per capita contributions from province to province. They were intent on "levelling" these contributions to some degree. Table II indicates the discrepancies in these per capita transfers ranging from a low of $199 in Prince Edward Island to a high of $255 in Quebec.[2]

Although the provinces had all previously expressed some degree of discontent with shared-cost programs, their initial positions on new financing arrangements varied considerably. Quebec objected strongly to the concept on philosophical grounds. Their position had been well documented during the sixties and early seventies. Ontario and Alberta, being in strong financial positions argued that once these national programs had been established there was little need for a continued federal presence. Emphasis was also put on the burdens imposed on provincial budgetary planning through federal unilateral actions. However on the other side, the

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1 In 1974-75, federal contributions to the three programs in question averaged 17.9 per cent higher than they were in the previous year, and in 1975-76 they were 18.2 per cent higher than in 1974-75. For further details see <u>Ontario Budget</u>, 1974.

2 <u>Ontario</u>, "Federal-Provincial Fiscal Reforms", Background Budget Paper, p. 4.

TABLE II

Federal Contributions to Established Programs in 1976-77

	HIDS	PSE	Medicare	Total	Per Capita
		($ million)			
Newfoundland	63.2	31.3	23.1	117.6	211
Prince Edward Island	12.0	6.9	5.0	23.9	199
Nova Scotia	95.4	57.5	34.6	187.5	225
New Brunswick	77.6	38.9	28.6	145.1	211
Quebec	729.5	602.0	259.6	1,591.1	255
Ontario	987.0	618.3	346.7	1,952.0	234
Manitoba	122.6	64.2	42.7	229.5	223
Saskatchewan	105.0	57.0	38.9	200.9	215
Alberta	210.5	137.6	75.9	424.0	232
British Columbia	288.7	145.4	103.6	537.7	216
ALL PROVINCES	2,691.5	1,759.1	958.8	5,409.3	234

Source: Department of Finance, Government of Canada, November, 1976. Reproduced in Ontario, "Federal-Provincial Fiscal Reforms", Background Budget Paper, p. 4.

Atlantic provinces and Saskatchewan were concerned that new arrangements might impose unfair financial burdens on the poorer provinces. In addition, they were concerned that federal withdrawal might lead to growing disparities in program performance.

D. METHODOLOGY

In his study of Canadian federalism in the 1960's, Richard Simeon outlined a comprehensive bargaining model for the examination of federal-provincial negotiations. In deciding what factors are crucial for an evaluation of such decision-making, Simeon stressed the dynamic quality of the process.

> The framework can be stated like this: there is a set of interdependent actors, or partisans; they operate within a certain social and institutional environment; they share some goals but differ on others - it is a "mixed motive game"; they have an issue or set of issues on which they must negotiate; none has hierarchical control over the others; they have varying political resources; they use these resources in certain strategies and tactics; they arrive at certain outcomes; and these outcomes have consequences for themselves, for other groups in the society, and for the system itself. The problem now becomes how each of these elements is related to the others, and how they provide a "satisfying" explanation of the adjustment process.[1]

The basics of this model will be used to study the 1976 financial negotiations. Emphasis will be put on the issues, the institutions, political resources, strategies and

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[1] Simeon, Federal-Provincial Diplomacy, p. 11.

tactics. Simeon's study rests on certain assumptions. In 1976 one of the main assumptions, the constraint against interprovincial co-operation, was changed. The paper will examine what impact the change in this variable had on the final outcome of the negotiations. In addition, an attempt will be made to assess how likely it is for interprovincial co-operation to become a more permanent feature of intergovernmental negotiations. If the future development of the Canadian federal system is indeed moving in the direction of increased decentralization it is important to shed some light on the impact that increasing interprovincial co-operation may have on the working of the federal system.

CHAPTER II

1976 - THE FINANCIAL NEGOTIATIONS

Formal negotiations concerning new fiscal relations between the federal and provincial governments began at the Meeting of Ministers of Finance and Provincial Treasurers, April 1-2, 1976, and continued throughout the 1976 calendar year. Appendix C gives a list of all of the intergovernmental meetings concerned with financial negotiations in 1976. The negotiations proceeded through the various stages which were delineated by Richard Simeon.

> First the issue is raised and the participants formulate their goals and objectives. Next the participants engage in the exchange of information, either directly or indirectly, about each other's positions, political resources and the like. Third, they reassess their own positions and resources in light of this communication. Fourth, they make decisions about what concessions or compromises to offer and what alternatives to accept as they move towards some outcome. Finally, the outcome is ratified in the various legislatures. The process is dynamic and fluid; the participants must continually make complex calculations about their own behaviour and that of others in an often uncertain environment.[1]

A. MEETING OF MINISTERS OF FINANCE AND PROVINCIAL TREASURERS, APRIL 1-2, 1976

In his opening statement to the Finance Ministers' meeting, the Honourable Donald S. Macdonald, outlined in some

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[1] Simeon, Federal-Provincial Diplomacy, p. 43.

detail what was to be the basis of the federal position throughout the negotiations.[1] In this first comprehensive statement of the federal position focus was put on the objectives underlying fiscal relations, problems diagnosed in the present arrangements, and changes which the federal government thought were necessary.

For a starting point, the federal objectives which were outlined were those which had been initially enunciated by the Government of Canada during the financial negotiations of 1966. Mr. Macdonald stressed that these principles should be preserved:

> 1. We think the fiscal arrangements should give the federal and provincial governments access to fiscal resources sufficient to discharge their constitutional responsibilities.
>
> 2. They should provide that each level of government be accountable to its own electorate for its taxing and spending decisions.
>
> 3. The arrangements should incorporate a program of equalization grants which will enable each province to provide an average level of public services without resort to rates of taxation substantially higher than those of other provinces.
>
> 4. They should give to the federal government sufficient power to establish its own priorities and discharge its national responsibilities.
>
> 5. The arrangements should provide for the uniform application of federal laws in all provinces and the degree of uniformity among the provinces needed to preserve a viable national tax system.

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[1] Canada, Review and Reform: Fiscal Arrangements into the 1980's, Statement by Finance Minister Donald S. Macdonald to the Federal-Provincial Finance Ministers' Meeting, Ottawa, April 1, 1976.

6. They should provide a mechanism for continuing intergovernmental consultation and the harmonizing of federal and provincial government policies.[1]

In addition, the federal position appeared to be based on certain other principles. Mr. Macdonald's speech outlined their perception of a significant shift since 1945 in the relative economic positions of the federal and provincial governments.

> Provincial governments have achieved a greater degree of fiscal power and independence. They have come to control a larger proportion of total government revenues and expenditures. They have access to virtually all the major tax sources, with the exception of the indirect sales tax, and the freedom to use them as they see fit .... We must recognize that these developments are changing the traditional relationships between the federal and provincial governments. Greater provincial fiscal freedom implies greater accountability by the provinces to their taxpayers and bond holders. Provinces should expect to finance their spending requirements out of their own resources rather than to look to the federal government, as has traditionally been the case. And in doing so, it is essential that tax bases available to the federal government for national purposes not be eroded.[2]

The federal spokesmen also argued that the costs of programs, or more explicitly the rate of increase of costs, was an important factor to be taken into consideration. The suggestion was made that the federal government could no longer afford to support certain open-ended programs.[3] The

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[1] Ibid., p. 2.

[2] Ibid., p. 3.

[3] For total transfers paid out under these programs see Appendix E.

need for restraint was expressed with respect to the equalization program, the revenue guarantee and the area of major shared-cost programs.

Finally, as a general principle Mr. Macdonald stressed the need to discuss the whole area of shared-cost programs in tandem with the negotiations on fiscal arrangements. Indications were given that a new federal approach to shared-cost programs would be presented by the Prime Minister at a First Ministers' Conference later in the year, followed by discussion at the Finance Ministers level.

Finance Minister Macdonald also made more specific proposals. With respect to the equalization program he stressed that although the future of the program was not in doubt, there were various problems with the program in its present form. Emphasis was put on the rate of increase in the cost of the program;[1] problems relating to the ways in which provincial revenues are classified; the susceptibility of the formula to influence by provincial actions; the instability of the year-over-year growth in equalization payments due to weight given in the formula to the natural resource sector; the potential effect that the formula might have on provincial decisions to develop their resources; and the growing complexity of computing and administering a formula based on the "representative tax system". Thus the

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[1] Ibid., p. 3. The average annual rate of increase for the years 1972-1977 was stated as 19 per cent.

federal government called for a reassessment of the equalization program, to attempt to find a new system which would slow the growth in payments to an acceptable level, would simplify the system and would reduce the scope for manipulation.

The second major proposal concerned the revenue guarantee program. The federal government felt that the original purpose of the program had been fulfilled and thus announced that it would terminate in 1977 with the end of the Fiscal Arrangements Act. In addition, Mr. Macdonald announced a second change with respect to the revenue guarantee program; a change which was to have a profound effect on the ensuing negotiations. Inaccuracies in the formula which was used to determine the annual revenue guarantee payments were highlighted and a new formula suggested. The federal government maintained that the amount of foregone revenue over the period of the program had been overestimated and announced that "It is also the government's intention to make this change operative for the years 1974, 1975 and 1976."[1] This change meant that provincial governments would experience substantial losses in revenue.

With respect to other parts of the Fiscal Arrangements Act, the federal government stressed the desirability of continuing the tax collection agreements, as an effective means of maintaining a relatively uniform national taxation

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[1] Canada, Review and Reform: Fiscal Arrangements into the 1980's.

system, and of avoiding the complexities and misallocations of "tax havens" or "double taxation" systems. However, they did stress that there were limits to which the federal government could go in accommodating provincial variations, that some degree of uniformity was needed. They also maintained that the provincial governments' role in the tax system should be emphasized to a greater extent. On the issue of the revenue stabilization program, the federal government announced its intention to amend the provisions of the Act dealing with oil and gas revenues so that the stabilization payments did not cover declines in revenues that have reached extraordinarily high levels because of unusual economic circumstances. Opting-out arrangements and post-secondary education payments were to be discussed in relation with the financing of shared-cost programs; this subject was reserved for discussion by the First Ministers.

For all governments, the opening remarks were important policy statements which indicated their initial negotiating position. To some extent, the provinces had been prepared for the federal government's approach through prior discussions at the Continuing Committee of Officials on Fiscal and Economic Matters Meeting.[1] With the exception of Quebec, which made a comprehensive proposal concerning opting-out arrangements, equalization and the revenue guarantee,

[1] The Continuing Committee of Officials on Fiscal and Economic Matters is a standing intergovernmental committee of Deputy Ministers of Finance.

the other provincial statements tended to focus on the two main issues of contention, the revenue guarantee and equalization.

On the issue of the revenue guarantee, the provinces took the defensive throughout the discussions.[1] Most of their comments focused on the effects that the immediate reduction and the eventual termination of the revenue guarantee payments would have on provincial budgetary positions. They expressed concern about the financial effects of the decision. Most of the provinces were in the process of preparing their annual budgets for presentation. All provinces took strong exception to the change in methodology for calculating the personal income tax component of the revenue guarantee and some provinces asked that it be referred to First Ministers before action was taken. Concern was also expressed about the fact that the federal position appeared to be non-negotiable.

With regard to the equalization program, the consensus among the provinces was that there was some merit in keeping the existing formula with some modifications. Note was made of the technical work being done by a Subcommittee of Officials on Equalization in examining alternative formulae. Recipient provinces, especially those from the Atlantic region expressed concern about possible changes in the concept of the equalization formula which might lead to cutbacks in the actual amount of annual equalization payments received. They

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[1] Federal-Provincial Finance Ministers' Conference Proceedings, April 1-2, 1976.

did express a willingness to consider means of controlling the growth level of such payments.

The majority of the provinces also expressed concern about shared-cost programs in general and the unilateral moves of the federal government through the June 1975 budget announcements. Several provinces stressed that the discussions on shared-cost programs should not be removed from the fiscal arrangements discussions since the settlement on one issue would be such an important element in their positions with respect to the other.

In summary, the provinces seemed to be somewhat dismayed by the federal government's opening positions. By the end of the two-day meeting relations were strained. The parameters of the fiscal discussions seemed narrower than originally envisioned by most of the provinces. The federal government was taking the position that the system which had evolved was in need of fundamental change, that the new arrangements would not consist of incremental changes. The federal government seemed insistent on limiting the growth rate of federal expenditures especially in the area of intergovernmental transfers. In the past, through federal-provincial fiscal negotiations, the provinces or at least some of them, had emerged with some degree of financial gain. This possibility no longer seemed probable. The initial federal stance could be described as tough and limited; their major goal seemed to be to restrain the growth of federal

expenditures. Subsequent events brought up the possibility that this initial position was a negotiating strategy. However, in light of the growing federal deficit, the increasing federal burden of intergovernmental transfers, and their commitment to restraint as part of the Anti-Inflation Program, it is likely that the federal government was genuinely concerned about restraining expenditures.

B. WESTERN PREMIERS' CONFERENCE, APRIL 28-29, 1976

During a meeting of the four western Premiers in April, one of the major agenda items was the whole area of fiscal arrangements and shared-cost programs. In the past the focus of this regional meeting had tended to avoid highly contentious federal-provincial issues. The Premiers decided to review this issue in light of the upcoming First Ministers' Meeting in June and because of the perceived possibility of reaching a joint western position on certain key aspects of the negotiations. Concern was expressed over the unilateral federal announcements which had been made in an attempt to control rising federal expenditures and the impact of such decisions on provincial financial positions.[1]

Following the two-day meeting, the Premiers issued a detailed communique dealing with Fiscal Arrangements and

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[1] Alberta, Summary of Proceedings, Western Premiers' Conference, Department of Federal and Intergovernmental Affairs (Confidential Internal Document), 1976.

Shared-Cost Programs which was forwarded by the Chairman to the Prime Minister. A joint western position was detailed on the revenue guarantee, equalization, tax collection agreements and shared-cost programs. Their strongest statement was on the revenue guarantee:

> The four Western Premiers believe that the federal government's current plan to effect a unilateral change in the method of calculating the income tax revenue guarantee for the 1974, 1975 and 1976 tax years is unacceptable and should not proceed. The Premiers believe that this matter should be discussed at the forthcoming meeting of First Ministers and that an effort should be made to arrive at a settlement which is equitable to all governments involved.[1]

The Western Premiers also called upon the federal government to consider some alternative proposals for the continuation of such a scheme.

On equalization, the four Premiers stressed the desirability of continuing a fair equalization formula and strongly opposed any arbitrary annual growth "ceiling". Under the tax collection agreements, the Premiers stressed their view that provincial governments should be permitted greater flexibility to alter their income tax structures under the national income tax collection system. In addition, measures should be taken to prevent unilateral federal income tax changes from reducing provincial income tax revenues. With respect to the major programs of health insurance, hospitalization and post-secondary education, the Premiers reviewed

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[1] Communique, Western Premiers' Conference, Medicine Hat, April 1976.

many of the problems and stated:

> The four Western Premiers believe a new financing system should be sought and they feel that, among other alternatives, consideration should be given to a mechanism under which the federal government would transfer corresponding equalized income tax points to the provinces, in exchange for the provinces' assuming full responsibility for program financing. They believe that this could be done in a way consistent with the maintenance of national standards and the ready access to services.[1]

This was a significant statement, since two of the provinces, Manitoba and Saskatchewan had previously been opposed to any tax transfers.[2] They were now publically stating that they were at least willing to give serious consideration to the tax transfer concept.

C. FIRST MINISTERS' CONFERENCE, JUNE 14-15, 1976

During April and May a great deal of discussion at the official level took place. The Subcommittee on Equalization finalized its work, various meetings were held among program departments. The initial thrust of the federal position on shared-cost programs was outlined for the provinces at a special federal-provincial meeting chaired by Gordon Robertson, the Secretary to Cabinet for Federal-Provincial Relations, on June 8, 1976. This gave the provinces some time to reassess

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[1] Communique, Western Premiers' Conference, Medicine Hat, April 1976.

[2] For details of positions see the Proceedings from First Ministers' Conferences in 1960's. Even at the April 1976 Meeting of Finance Ministers these provinces had stated their objectives to the tax transfer approach.

their individual positions, to take account of the federal proposals, and prepare their own arguments.

The consolidation of the vast network of discussion and negotiation took place at the First Ministers' Meeting on June 14-15, 1976, which had been called to consider the Fiscal Arrangements Act and the Established Program Financing proposal.

Prime Minister Trudeau presented to the Conference, the federal government's framework for new arrangements in the "established" program areas of hospital insurance, medicare and post-secondary education. In presenting the new proposal to the Premiers, the Prime Minister stressed that the scheme would provide more program flexibility for the provinces since federal contributions would no longer depend on provincial expenditures. From the federal government's point of view, the proposal was aimed at bringing certainty and stability to its program expenditures. The proposal was based on five basic principles: the federal government would continue to pay a substantial share of program costs; federal payments should be calculated independently of provincial program expenditures; there should be greater equality in per capita terms among the provinces with regard to the amount of federal funds they receive under the programs; the arrangements for these major programs should be placed on a more permanent footing; and, there should be provision for continuing federal participation with the provinces in the consideration and

development of policies of national significance in the fields of health and post-secondary education.[1] A forum at the ministerial level for each of the health and post-secondary education fields was suggested in order to facilitate the initiation of federal-provincial common objectives.

The direction for the future was expressed in the Prime Minister's conclusion.

> It is the Government's belief that the adoption of new arrangements along the lines proposed could bring about a fruitful new phase in the life of these important programs, resulting in more efficient and improved services for the Canadian public. At the same time, a number of sources of federal-provincial friction would be removed. Because of the relative permanence and stability of the arrangements, there would be greater opportunity for both levels of government to plan their various expenditures. Provinces would have greater flexibility in the use of their own funds. Intergovernmental administrative and auditing arrangements could be much simplified. The Government believes that the Established Programs Financing Proposal will provide the basis for useful discussions between governments and hopes that it will constitute an important step forward in federal-provincial co-operation to the advantage of the people of Canada.[2]

In general, the Established Programs Financing Proposal, was an attempt at a compromise, balancing both the demands for complete federal withdrawal and a continued federal presence in the major shared-cost programs. It suggested giving the provincial governments additional tax room and thus increased

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[1] Canada, Established Programs Financing Proposal, Statement by P. E. Trudeau, Prime Minister, to the First Ministers' Conference, Ottawa, June 14-15, 1976. Simultaneously presented to the Parliament of Canada.

[2] Ibid., p. 18.

flexibility while maintaining a certain federal presence in the policy area. In essence, the Proposal represented the dismantling of the major system of shared-cost arrangements which had been the focal point of intergovernmental fiscal relations throughout the sixties and early seventies.

Initial provincial reaction was cautious. Many of the provinces welcomed the initiative, agreeing in principle with the federal proposal.

> It represents a commendable start to resolving some long-standing difficulties in the federal-provincial relations of our country .... So it is a good beginning - positive step towards improving the accountability and flexibility of the partners in Confederation ....[1]

> Our initial reaction is to agree on the general principles, however, there are many issues to be resolved once the details of this proposal have been put forth.[2]

Others were more cautious, awaiting details as to how the proposals were to be implemented.

Among the provinces, there were defenders of the present shared-cost arrangements. Common among the have-not provinces was a general concern that the federal proposal to end its direct participation in the major shared-cost programs would force the provinces to bear all of the future financial risks in the delivery of these three programs. Premier Blakeney

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[1] Ontario, Statement by the Honourable W. G. Davis, Premier of Ontario, to the First Ministers' Conference, June 14-15, 1976, p. 2.

[2] Newfoundland, Statement by the Honourable Frank Moores, Premier of Newfoundland, to the First Ministers' Conference, June 14-15, 1976, p. 3.

expressed this point of view:

> The development of shared-cost programs has been beneficial not only to Saskatchewan but to all of Canada. The cost-sharing mechanism has become an important vehicle of social progress, a conveyor belt for the transmission of program innovations across the country .... While a greater measure of flexibility is both possible and desirable to accommodate different provincial priorities, we believe that the maintenance of reasonably uniform national standards remains essential, not only on grounds of equity but also to facilitate the mobility of Canadians among regions .... We recognize the need to impose a greater measure of discipline on shared-cost programs, to achieve cost efficiency in a number of areas, to overcome unnecessary rigidity and to improve procedures for federal-provincial co-operation and action. The problems that exist, however, are not inherent in the cost-sharing mechanism itself; they are defects in the program design, and they can be corrected.[1]

Manitoba expressed concern that the main objective of the federal proposal was to reduce significantly the "relative level of the federal government's future financial commitment to the very programs which have come to exemplify the spirit of co-operative federalism in Canada."[2] Others were concerned about the possible inequities for the poorer provinces of tax point transfers.[3] New Brunswick expressed concern with the proposed rate of growth of the federal contributions and the

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1 Saskatchewan, Statement by the Honourable Allan Blakeney, Premier of Saskatchewan, on the First Ministers' Conference, June 14-15, 1976, p. 4.

2 Manitoba, Notes for an Opening Statement on Shared-Cost Programs and New Federal Financing Proposals, by the Honourable Edward Schreyer, Premier of Manitoba, to the First Ministers' Conference, Ottawa, June 14-15, 1976.

3 Nova Scotia, Statement by Honourable Gerald Regan, Premier of Nova Scotia, to the First Ministers' Conference, Ottawa, June 14-15, 1976, p. 4.

equalization factor involved with the tax room transfer.[1]

Predictably, other provinces maintained that the federal proposals did not go far enough. Ontario maintained that the proposal should go farther and incorporate the total health and welfare programs ".... it is not the comprehensive reform we would like to see."[2] Quebec suggested that all transfers to provincial governments be taken together - "transfers not only for medicare, hospital insurance and post-secondary education but also transfers effected for equalization and revenue guarantee"[3] - and an equal amount be given to the provinces through tax point transfers in order to allow them complete freedom in establishing their own priorities while guaranteeing them the revenues to do so. British Columbia stated: "Straight transfer of tax room to the Provinces would put the expenditure responsibility and the taxing responsibilities where they belong."[4]

Much of the discussion at the Conference concerned

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[1] New Brunswick, Statement by the Honourable Richard Hatfield, Premier of New Brunswick, to the First Ministers' Conference, Ottawa, June 14-15, 1976, p. 5.

[2] Ontario, Statement by the Honourable William Davis, Premier of Ontario to the First Ministers' Conference, Ottawa, June 14-15, 1976.

[3] Quebec, Statement by the Honourable Robert Bourassa, Premier of Quebec, to the First Ministers' Conference, Ottawa, June 14-15, 1976, p. 4.

[4] British Columbia, Statement by the Honourable W. Bennett, Premier of British Columbia, to the First Ministers' Conference, Ottawa, June 14-15, 1976.

this very important aspect of future financing for major shared-cost programs. It was obvious to all participants that a fundamentally new direction was being contemplated. Everyone was thus concerned about the implications of the proposals from both the financial and policy aspects. Recent provincial experiences at the Finance Ministers' Conference with respect to revenue guarantee payments made them hesitant about new formulae which might leave them with the bulk of the future financial burdens.[1] The provinces called for more definitive details on the plans in order to adequately assess the impact. Many detailed questions were presented for the federal government's consideration. Generally, provinces were concerned about the flexibility of new arrangements; the revenue implications of various alternatives with special emphasis on the escalation rates; and the long term guarantees or commitments which could be expected from the federal government.

The attention of the First Ministers was also focused on continuing discussions concerning the Fiscal Arrangements Act. The Honourable Donald Macdonald outlined in some detail the federal thinking on new directions for various aspects of the fiscal arrangements. This presentation was similar to that which he had presented to the Finance Ministers in April.

The Premiers made various statements on fiscal

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[1] In addition, problems which had arisen from the federal government's revenue guarantee payments with respect to the method of calculation, made the provinces hesitant about the federal forecasts.

arrangements, outlining their perceptions of fundamental principles with respect to the fiscal relationships in Canada. Mention was made of the necessity for provincial flexibility; for adequate resources to meet responsibilities; for the continuation of programs aimed at increasing equality among provinces; for the recognition of the need for fiscal restraint; and for the necessity of federal-provincial co-operation in reaching solutions to the complex problem of fiscal arrangements.

Without fail, province after province hammered away at the federal government's announced intention to make unilateral changes in the revenue guarantee.

> Now, we are faced with the possibility of a retroactive 'reinterpretation' of the principle into a new formula - a formula ... which could result in total payment shortfalls of \$800 million to \$900 million for the provinces.[1]

> ... I doubt whether there is one of us around this table who will not insist that we be compensated for the abrupt, major and unacceptable dollar losses implied by the recent unilateral federal decision about that guarantee.[2]

In general, the provinces called for two things: the continuation of the revenue guarantee program as originally devised for the agreed upon period, and a new program to be instituted to compensate provinces for revenue losses when the present period had expired.

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[1] Manitoba, Statement by the Honourable E. Schreyer, p. 5.

[2] Ontario, Statement by the Honourable W. Davis, p. 5. Similar statements can be found in the other provincial presentations and statements.

The other major area of concern was the equalization program. Most provinces restated their strong commitment to the program in principle. Strong opposition was expressed regarding the imposition of arbitrary ceilings on such a program.[1] Attention was also given to the difficulties surrounding the impact of natural resource revenue. To a great extent initial support seemed to tend towards the retention of the "representative tax system" although provinces left open final decisions awaiting the report of the technical subcommittee. For the poorer provinces, attempting to counter federal arguments, the main concern continued to be that any new changes must guarantee "in at least as great a transfer of funds as would a continuation of existing arrangements."[2] British Columbia stressed the need for changes in the equalization program which would take into account a measure of the varying costs faced by provincial governments.[3]

By the end of the first day of the First Ministers' Conference on June 14, most of the provinces were encouraged by the way the conversation was going. The Prime Minister appeared taken aback by the strength of the provincial opposition to the federal moves on revenue guarantee. He gave recognition to the merits of provincial arguments and

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[1] Saskatchewan, Statement by the Honourable Allan Blakeney, p. 13.

[2] Newfoundland, Statement by the Honourable Frank Moores, p. 4.

[3] British Columbia, Statement by the Honourable W. Bennett, p. 5.

gave indications that he was prepared to respond in a positive way.[1] Discussions on the subject continued among the First Ministers at a private dinner that night. Once again there were indications that the federal government might be willing to consider some form of accommodation on both the retroactive changes to the current formula and the need for a replacement formula. However, as the meeting commenced the next morning, Prime Minister Trudeau announced that he had considered the provincial arguments and had rejected them. The mood of the meeting from that point on was hostile and unproductive. Adjournment took place with many unanswered questions.

D. MEETING OF MINISTERS OF FINANCE AND PROVINCIAL TREASURERS, JULY 6-7, 1976

The first item to be discussed at the Finance Ministers' Meeting was equalization. The federal government outlined problems with the existing formula and reviewed the work done by the Officials' Subcommittee on Equalization. Two broad issues were identified for resolution: the first was the level of equalization; the second was what revenues were to be equalized. Three alternatives were put forward for consideration by the provinces. Two of them were of the representative tax system variety, one was of the mixed system type. At this stage in the negotiations Mr. Macdonald

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[1] Canada, Proceedings of the First Ministers' Conference, Ottawa, June 14-15, 1976 and Manitoba Statement by the Honourable Edward Schreyer, Finance Ministers Meeting, July 6-7, 1976, p. 1.

indicated that he was not committed to any of the alternatives. The general preference from the provinces seemed to be in favour of the retention of the representative tax system formula which previously had been in effect although several provinces indicated their willingness to consider certain technical adjustments. Recipient provinces stressed the importance of these payments to the fiscal position of their provinces.

The next item of the agenda was the revenue guarantee. Mr. Macdonald indicated that the federal Cabinet had once again considered the issue. Consideration had been given to the difficulties which confronted the provinces when the federal government made changes to the tax system. Under the Tax Collection Agreements the provinces had to use schedules similar to the federal government's. Thus changes to the federal scheme had repercussions on the provincial revenues. However, Mr. Macdonald stressed the necessity of the federal government retaining such freedom of action. He then reiterated many of the arguments which had been made at previous meetings. However, for the first time there was some indication that the federal position might be flexible. The federal government indicated that they would consider the possibility of a new guarantee for the 1977-82 period. What was proposed was a limited one-year guarantee for the year in which tax changes occurred. On the matter of the retroactive changes they indicated that there would be no change from

their previous position.

The principles which had been enunciated at the First Ministers' Conference in June with respect to established programs were translated into more concrete proposals for the Finance Ministers' Meeting in July. In making his presentation, Mr. Macdonald[1] put before the Conference calculations prepared by the Department of Finance.

Basically, the federal position as outlined was that the current federal share of hospital care, medicare and post-secondary education costs should be transferred to the provinces in the form of a tax transfer and a cash adjustment payment.[2] A total tax transfer was rejected since the federal government felt it would erode their ability to preserve standards of services for all Canadians and it would have adverse effects on the poorer provinces. Thus they proposed that the provinces' entitlements would be divided into two parts, one of cash and the other of tax room equalized to the national average, and that the two parts should increase independently of one another. The cash part would grow in accordance with an escalation factor, and would rise more or less in line with the growth of GNP. The tax part would grow with the increasing yield from the tax room. The amount of tax room transferred would be identical for all provinces and

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1 Canada, Statement by the Honourable Donald S. Macdonald to Finance Ministers' Conference, Ottawa, June 6-7, 1976.

2 For more details of EPF financing see Appendix B.

would be calculated with reference to the province or provinces with the highest per capita yield from the taxes in question. For some provinces, the value of the cash payments plus the equalized tax transfers would not amount, in the early years of the new arrangements, to as much as if the whole of their entitlement had been paid in cash. Therefore, transitional payments would be made to make up the difference. The major questions which needed definition were how to determine the base year, the rate of growth and the portion of contributions which would be tax and cash respectively. Several options were presented.[1] All options remained within the principles established by the original federal proposal. The federal government, however, did not indicate that it favoured one option over the others.

> However, as I said at the outset, the particular options I have put forward are not the only possible formulations. I have not reached any final views as to the best way to achieve our goals and I would be prepared to consider other alternatives consistent with our basic purposes.[2]

The EPF proposal in detail may be seen as a logical extension of federal offers which had been made in previous years. Retained from these previous offers were the principle of GNP escalation, per capita levelling, and a mix of tax room

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[1] Several options were presented ranging from the entire federal payment in the form of cash; to a mix of 66 2/3 per cent cash plus 7 1/2 p.i.t. and 1 c.i.t.; a mix of 50 per cent cash plus 7 1/2 p.i.t. and 1 c.i.t. and federal excise duties and taxes on alcohol; a mix of 50 per cent cash plus 8 p.i.t. and 1 c.i.t. and 1/2 of excise duties and taxes on alcohol and tobacco.

[2] Canada, Statement by the Honourable Donald S. Macdonald, p. 6.

plus cash. For the first time post-secondary contributions were included in the base. In addition, the 1976 EPF proposal allowed for independent growth of the tax and cash components.[1]

In response, the Honourable W. Darcy McKeough, the Treasurer of Ontario, presented a major paper to the Conference Reforming Fiscal Arrangements and Cost-Sharing in Canada. In general terms, the Ontario approach was for "clean opting-out, with equalization to the level of the top province". It was suggested the 20 personal income tax points transferred to the provinces would be a reasonable and fair exchange for complete federal withdrawal from Hospital Insurance, Medicare and post-secondary education. Ontario argued that this option would reduce administrative problems while increasing provincial program flexibility.

> Mr. Chairman, the proposal that Ontario is making is fair to all governments concerned. It is fair to the federal government because it meets its objectives at a cost substantially below what a full settlement on the Revenue Guarantee would entail. It is fair to the less wealthy provinces because it provides them with greater assistance for catching up. And it is fair to Ontario .... Most important, Mr. Chairman, it is fair to the taxpayers of Canada. It increases the accountability of governments to those who pay the bill, it allows for greater cost-efficiency in the future, and it does not cost one extra dollar. For all these reasons, I suggest that you reconsider the preferred Ontario solution of opting-out with equalization to the level of the top province yield.[2]

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[1] Ontario, "Federal-Provincial Fiscal Reforms", Background Budget Paper, 1977, p. 8. A detailed account of the various federal offers is presented.

[2] Ontario, Statement by the Honourable Darcy McKeough to Finance Ministers' Conference, Ottawa, July 6-7, 1976.

While several provinces (British Columbia and Quebec) expressed some interest in Ontario's approach there was still widespread disagreement over the best option. The Maritime provinces emphasized the importance of the federal government continuing to pay a large portion of the costs of the major programs in the form of a cash payment. Saskatchewan reiterated its support for continued direct financial participation by the federal government in the cost-sharing of these important programs. The discussions in general were inconclusive with all participants agreeing that there was considerable work to be done before an agreement could be reached.

In general, the Finance Ministers' meeting had accomplished little. Relationships were strained. There seemed to have been little indication of a willingness to negotiate from either side. In addition the provinces wished to analyze carefully the data which had been presented to them. What had originally been planned as a two-day meeting adjourned after the first day.

E. PREMIERS' CONFERENCE, AUGUST 18-20, 1976

The Fiscal Arrangements Act and shared-cost programs was an agenda item for discussion at the annual Premiers' meeting. In anticipation of these discussions, Ontario recirculated its proposal with attached Supplementary Notes,[1]

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[1] Ontario, Supplementary Notes on Ontario's 20 Point Proposal, July 1976.

attempting to clarify some of the technical details and encourage the provinces to use their proposal as a point of departure for the First Ministers' discussions. An informal provincial Finance Ministers' meeting was called the night prior to the opening of the Premiers' Conference.

Following this meeting, intensive discussions took place between the Premiers and their Ministers of Finance on the first day of the Conference. In summarizing these discussions, the Premiers expressed regret "that the Federal Government was pursuing policies which were seriously straining the negotiating climate."[1] Special references were made to the unilateral imposition of ceilings on federal contributions to medicare, the termination of hospital insurance by 1980, the unilateral and retroactive changes in the revenue guarantee formula, and federal holdbacks in post-secondary education cash adjustment payments.

In addition, the ten Premiers agreed on four principles which they felt should be incorporated into the established programs financing proposal. They felt that the arrangements should be designed to ensure maximum flexibility for the provincial governments to improve the cost effectiveness of the delivery of their programs while pursuing their own priorities. The maintenance of high national standards should also be protected. Secondly, the Premiers maintained

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[1] Communique, 17th Annual Premiers' Conference, Edmonton, August, 1976.

that the total transfer payments under any new system should be at least as great as what they would have received under the continuation of existing arrangements. Any arrangement involving a tax transfer should be based on income taxes only. The tax points should be equalized to the per capita yield of the wealthiest province. Finally, any per capita cash grant should incorporate an escalator based on an equitable sharing of the financial risks associated with increasing program costs. Some concern was expressed regarding the federal proposal that their cash transfer payments would be subject to certain federal "conditions" in the program area. The Premiers called for more information on these so-called "conditions".

The Premiers also discussed the matters relating to the revenue guarantee payments. A strong public statement against the unilateral action of the federal government was made, in addition to a proposal for action.

> To rectify this intolerable situation, they stated that the Federal Government must make a compensating adjustment, such as a transfer of an additional four personal income tax points starting in 1977, in order to return the provinces' share of the income tax field to a level equivalent to their share before the 1972 tax "reforms" were implemented.[1]

At the conclusion of the meeting, the Premiers called upon their Finance Ministers or Provincial Treasurers to continue discussions on the various proposals at the interprovincial level.

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[1] Ibid.

F. INTERPROVINCIAL CONSENSUS

The Provincial Finance Ministers and Provincial Treasurers met twice in the following months to consider the various financial arrangements and to attempt to forge a provincial consensus on a proposal which recognized the special and legitimate concerns of all of the provinces. In addition, a great deal of technical work and negotiation was done by provincial officials. The federal proposal and alternatives suggested by a number of provinces, (Quebec, Ontario, Saskatchewan and New Brunswick) were examined. A provincial consensus position was arrived at within the framework laid out by the Prime Minister in June. In presenting the proposal the Honourable Merv Leitch, the Provincial Treasurer from Alberta stated:

> The three-part proposal which the provinces are submitting for consideration ... is equitable among the provinces and one we believe to be both a reasonable and comprehensive alternative. The proposal has been prepared with the recognition that the different issues to be discussed, while separable, are interrelated.[1]

The joint provincial statement covered three key aspects of the fiscal arrangements which had been under negotiation: equalization; the revenue guarantee; and established programs financing. On equalization, the provinces expressed their preference for "Formula B" which had been

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[1] Alberta, Statement by the Honourable M. Leitch, Federal-Provincial Financial Arrangements: The Provincial Proposal, Statement on Behalf of all Provincial Ministers of Finance and Provincial Treasurers, December 6-7, 1976, p. 2.

developed by the federal government. This formula maintains the representative tax system approach but would equalize only 50 per cent of the revenues from all nonrenewable natural resources. With regards to the revenue guarantee, the provinces proposed a transfer of four personal income tax points equalized to the national average to compensate for termination of the guarantee. On the difficult issue of established programs financing arrangements, the provincial consensus presented an arrangement in which federal contributions would be equally divided into two parts - one, a transfer of equalized income tax points, and the other, a cash grant. The tax room would consist of 12.5 personal income tax points plus one corporate tax point and would be equalized to the top province yield; and upward levelling would take place in the first year. The cash payments would be escalated by a three-year moving average of per capita GNP.

Considerable accommodations were made in reaching this consensus, particularly by the Atlantic provinces and Saskatchewan. They had to sacrifice their long-standing preference for the continuation of cost-sharing arrangements with its commitment to risk-sharing by the federal government.

> The proposals which we as provincial Ministers of Finance and Treasurers, have put forward today stand as one complete package - an expression of our consensus on the three topics which have been discussed thus far. The Provinces are of the opinion that their proposal is in keeping with the spirit of cooperation which the Provinces feel should characterize federal-provincial fiscal relations. This proposal is consistent with the principles

> set out by the Prime Minister last June and is financially reasonable in light of the Federal Government's national responsibilities. In the interests of Canadian unity the Provinces have made an unprecedented effort to achieve a national consensus - a process which has required an accommodation from each of our governments. We urge the Federal Government to join with the Provinces in supporting this proposal, a proposal which will strengthen Canada and be beneficial to all Canadians.[1]

G. MEETING OF MINISTERS OF FINANCE AND PROVINCIAL TREASURERS, DECEMBER 6-7, 1976

The joint provincial statement was presented to the federal government by the Honourable Merv Leitch, the Treasurer of Alberta, on behalf of all the provinces. Federal-provincial discussions continued over the two days. The end result was that the Federal Government rejected the provincial position.

> ... the provincial paper represents a sincere effort by the provinces to present a realistic proposal which we believe ought to be acceptable to the federal government. Why was it rejected? It has been argued by the federal Minister of Finance that the proposal is too rich but it is important to note that, if the provincial proposal were accepted in its entirety, the federal government would pay less to the provinces in the coming year than it would have paid under current arrangements if there were no limitations on the original concept of 50-50 sharing of program costs.[2]

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1 *Ibid.*, p. 5.

2 Alberta, Honourable M. Leitch, Notes for a Statement to the Press on Behalf of all Provincial Treasurers and Ministers of Finance, December 7, 1976.

Finance Minister Donald Macdonald argued his case before the federal-provincial Conference of Finance Ministers. In opening, he responded to the provincial consensus in a general way, stressing the differences in provincial fiscal positions and priorities while reiterating the need for a strong federal government.

> Our discussions reminded me of the great diversity of economic and fiscal strength among the provinces, and they clearly indicated that the provinces have different interests and, therefore different views as to what might be done.
>
> And thus, throughout our review, I have been searching for a package which might reconcile these differences and arrive at a synthesis of what each of us is hoping to achieve. In saying this I am, of course, including the interests of the federal government which must continue to occupy a central position in the system by virtue of its responsibilities for broad economic management and income redistribution.[1]

The tone of the rest of the statement, while reaffirming the various principles and proposals of the federal government, was unyielding to the pressures of the provincial position. Mr. Macdonald stressed the need for fiscal restraint, in the main arguing against the provincial proposal on the grounds that it would be too expensive, that it would entail too substantial a drain on the federal treasury. His statement also contained more details on various aspects of the total package: the treatment of non-renewable and renewable resource revenues under the equalization formula; details

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[1] Canada, Statement by the Honourable Donald S. Macdonald to Finance Ministers' Meeting, Ottawa, December 6, 1976, p. 2.

on the implications of a fifty-fifty cash-tax split for EPF payments; and the inclusion of extended health care options into the total package; a new limited one-year revenue guarantee plan.

Although the Finance Ministers had planned to have a package to present to the First Ministers' Conference, they were not successful. By the end of the December 6 meeting there were still several substantial outstanding issues. Discussion on the Established Programs Financing proposal focused on the following aspects: the integration of the present shared-cost programs into the formula; the form of federal contributions; the equalization of the tax room transferred; and the "levelling" provisions.[1]

Although the Hospital Insurance legislation was not due to expire until 1980, the federal government expressed a strong desire that the federal-provincial financial agreements be amended in order that this program could be brought into the EPF along with post-secondary education and medicare on April 1, 1977. The provinces expressed a preference for continuing the present cost-sharing formula until 1980 and requested that when it was brought into the EPF arrangements that they be guaranteed the greater of the yield of the old and new formulae. The federal government refused this guarantee, maintaining that it would not provide incentives

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[1] Rubinoff, Federal-Provincial Relations, p. 19. For further details on these terms see Appendix B.

for expenditure controls in the interim. The provinces had proposed federal contributions for the EPF to be a fifty-fifty mix of cash and tax room (personal income tax). The federal government accepted this proposal.

With regard to equalization of the provincial income tax transfer the provincial position had requested equalization to the top province. In response, the federal government proposed transition payments which would ensure that all of the provinces would receive at least as much as if the entire federal contribution were in cash. They feared that equalizing to the top province would have enormous growth potential over time.

On the "levelling" provisions the provincial proposal had been for an immediate "levelling" up of those provinces which under the old arrangements received federal contributions below the national average in per capita terms. The "levelling" down proposal was for a five year period. The federal government proposed a three year levelling up provision.

The federal government also proposed that certain cost-effective health programs be integrated into the established programs financing proposal. It was suggested that this extended care proposal could be financed by adding $20 per capita to the cash portion of the EPF formula. However, this offer was only available if all provinces brought the former Hospital Insurance Program under EPF by

April 1, 1977.

The major outstanding issue was the revenue guarantee. The provinces had asked for a transfer of an additional four points of income tax, equalized to the national average as compensation for the termination of the revenue guarantee program. The federal government retreated to its original arguments about the short term nature of the 1972 program. They thus maintained that any transfer was unnecessary and would entail enormous long-term costs.

Final decisions on the outstanding issues were delayed until the First Ministers' Conference scheduled for the following week.

H. FIRST MINISTERS' CONFERENCE, DECEMBER 13-14, 1976

The main issues which had remained unresolved following the Finance Ministers' Meeting were presented to the First Ministers' Conference for resolution. The federal government was under a considerable degree of pressure to resolve the issues and get some agreement. Legislation covering the fiscal arrangements and the areas of post-secondary education, medicare and hospital insurance financing had to be prepared and presented to Parliament. A new Act had to be in place prior to April 1, 1977. The time constraints were considerable.

Another factor which put considerable pressure on

the federal government was the participation for the first time of the newly elected Premier of Quebec. Although Quebec had indicated at the Finance Ministers' meeting her intention of going along with the provincial consensus which had been developed under the previous administration, attention was turned to the performance of Premier Lévesque at the December 13 Conference. He did give indications as to the position of the new government of Quebec.

> ... in the matter before us today, following on the Finance Ministers' conference last week, we agreed to take on the job without asking for any delay, because it was a matter of technical urgency: numerous talks had led to a consensus of the provinces, and we on our side felt like demonstrating immediately that, as long as Quebec was to remain in the present system, we had no intention of ruining the party ... even when it's nothing to write home about! ... for Quebec in any case, the structure and operation of the present system of government are not really "profitable", and in fact are becoming more and more of a handicap.[1]

The high degree of tension and interest which was generated by the presence of the Quebec Prime Minister resulted in demands by the media that the Conference be open to the public. When the First Ministers' indicated their desires to undertake the very technical financial discussions, at this crucial stage in the negotiations in private, some members of the press refused to leave the Conference Hall. Prime Minister Trudeau thus adjourned the meeting to a small

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[1] Quebec, Statement by the Honourable René Lévesque, Prime Minister of Quebec to First Ministers' Conference, Ottawa, December 13-14, 1976.

private conference room.

In opening, the federal government suggested a number of modifications to its previous position, but indicated little willingness to compromise beyond that point. After two days of intensive discussions, most of which took place in private sessions among the eleven first ministers, the provinces reluctantly gave their approval to the revised federal offer.

In general, the solution which was reached was a compromise. The essence of the settlement was that the federal government agreed to transfer to the provinces the equivalent value of two additional personal income tax points. Half of this transfer would be in cash and half would be in a cash equivalent. This transfer was intended as compensation for the termination of the revenue guarantee program and was given on the condition that the provinces agreed to apply the EPF formula to all three of the major shared-cost programs on April 1, 1977. With this agreement, the federal-provincial negotiations on new financing arrangements had come to an end. The First Ministers had laid the foundation for the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act.

I. MEETING OF MINISTERS OF FINANCE AND PROVINCIAL TREASURERS, FEBRUARY 1-2, 1977

The final federal-provincial meeting which dealt

with the new fiscal arrangements took place in early February. The federal government had completed the drafting of a highly technical and complex piece of legislation and was preparing for immediate presentation to Parliament. Certain problems of implementation of the new arrangements were still outstanding.

The major outstanding issue was a disagreement over payment for the three month overlap between the tax point transfer for EPF payments (effective January 1, 1977) and payments for the previous shared-cost arrangements which expired on March 31, 1977. The federal government argued for a return of these payments. Some provinces argued that the new tax points would not benefit the provinces until March and thus they would be overpaid by only one month. In the end, although the amount of money involved was substantial, the federal and provincial governments agreed to split the difference.

In addition, the extended health care option which the federal government had offered to the provinces in November was still outstanding. The federal government had offered $20 per capita in respect of such health-related services as nursing home intermediate care, low level residential care for adults, some home care programs and those aspects of ambulatory health services not covered under the Hospital Insurance Agreements. Discussions continued as to the inclusion of these provisions in the overall settlement.

A great deal of the discussion at this meeting

concerned the actual dollar values of many of the agreements which had been made by First Ministers in December. In the interim projections and calculations had been refined and to some extent changed. From some governments' perspective these developments changed their evaluation of the agreement which had been reached in December. However, all governments indicated they would continue to support the agreement which had been reached by First Ministers in December.

CHAPTER III

THE RESOLUTION OF THE FISCAL ARRANGEMENTS ACT

On March 31, 1977, the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act[1] became law. It represented the conclusion of an intensive process of federal-provincial negotiations as well as consideration by the Parliament of Canada. The new Act, which would be in place for five years, incorporated many aspects of previous agreements such as stabilization, equalization, tax collection agreements and undistributed income. At the same time it introduced some major changes into fiscal relations in Canada.

> However, it is much more than an extension of existing arrangements; in tone and in emphasis, it represents a new approach in the ever-changing area of intergovernmental fiscal relations.[2]

The provisions of this legislation are found in ten sections; the major innovations will be discussed below.

1. Fiscal Equalization Payments;
2. Fiscal Stabilization Payments;
3. Tax Collection Agreements;
4. Provincial Personal Income Tax Revenue Guarantee Payments;
5. Transfer Payments with Respect to Tax on 1971 Undistributed Income on Hand;
6. Established Programs Financing;

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[1] Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, C-37.

[2] D. B. Perry, "The Federal-Provincial Fiscal Arrangements Introduced in 1977", Canadian Tax Journal, XXV, July-August, 1977, p. 429. A summary of the new Act appears in this Article and also in Mr. Macdonald's Speech to the House of Commons, February 7, 1977.

7. Alternative Payments for Standing Programs;
8. Provincial Taxes and Fees;
9. General - Regulations - Recovery;
10. Consequential and Related Amendments and Coming Into Force.

A. MAJOR INNOVATIONS

1. Equalization

The federal legislation provided for a five-year extension of the equalization system. Under this scheme equalization payments are made to those provinces with lower revenue-generating capacity to provide public services without having to resort to excessive rates of taxation. A number of changes were introduced in 1977, in an attempt to overcome those concerns which had been highlighted by the federal government.[1] However, little in the way of basic reform was accomplished. The previous 23 revenue sources were expanded to 29 and revised to some extent in order to better reflect the actual provincial taxation regimes.[2] One of the major issues of the negotiations had been the treatment of provincial revenues from natural resources. The arbitrary distinction which had been made in 1974 between basic revenues and additional revenues was dropped. Under this Act one-half of the revenues from non-renewable mineral resources are

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[1] For details see summary of federal position in Chapter II, highlights of the Honourable Donald S. Macdonald's Speech to the Finance Ministers' Meeting, April 1-2, 1976.

[2] For list of 29 revenue sources see Perry, "The Federal-Provincial Fiscal Arrangements Introduced in 1977", p. 431.

equalized. This move was aimed at providing an incentive for provinces to develop these resources. Revenues from renewable resources are to be equalized in full. Finally a partial ceiling was built into the formula with the stipulation that equalization payments with respect to all natural resource revenues may not exceed one-third of the total equalization payment.

2. Stabilization

In the 1972 arrangements, provisions had been made for federal unconditional transfers to any province whose total annual revenues are less than the previous years due to a downturn in economic activity. This provision has never been used but it proved important to provinces' borrowing in international markets. A 1977 amendment limited the federal government's payments with respect to decreases in provincial natural resource revenues. Stabilization payments on these revenues would only be made when the annual decrease exceeds 50 per cent.[1]

3. Revenue Guarantee

Under the new Act, the previous revenue guarantee scheme was replaced by a restricted personal income tax revenue guarantee. Provincial personal income tax rates under the tax collection agreement are applied to the federal basic tax.

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[1] For further details see Appendix B.

Thus any change in the federal basic tax can have an adverse effect on provincial revenues. Payments are to be provided only for the first fiscal year following tax reforms in cases where the provinces suffer revenue losses (exceeding one per cent) which are directly attributable to a federal government's change in the personal income tax. The provinces must then introduce measures to restore their tax revenue. The new guarantee, similar to the 1972 arrangements does not cover losses resulting from indexation of personal income taxes.

The revenue guarantee was clearly one of the most difficult issues of the financial negotiations. The loss in dollar terms to the provinces was significant. The federal-provincial compromise on the issue was not specifically stated in the Act. This compromise consisted of both the limited guarantee as described above plus one percentage point of personal income tax, equalized to the national average and the equivalent of the tax point in 1976-77 in cash, equalized to the national average.[1] The transfer appeared as part of the established programs financing settlement.

4. Established Programs Financing

This section of the Act represents the major innovation of the new arrangements, and was the issue which necessitated the most in-depth study and negotiation. The new agreement replaced previous cost-sharing arrangements for

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1 Perry, "The Federal-Provincial Fiscal Arrangements Introduced in 1977", p. 432.

hospital insurance, medicare and post-secondary education and incorporated certain extended health care options. Federal contributions are no longer tied to expenditure patterns of the programs. Both sources of contributions, tax room and cash payments, are allowed to grow independently of each other and of the growth in program costs.

> The positions taken by the provinces at the beginning of the discussion about new financial arrangements were diverse indeed. Some provinces preferred to remain with the conditional shared-cost arrangements that had been so fundamental to the implementation of the basic health insurance programs. Other provinces, on the other hand, were in favour of a full opting-out by the federal government from the financing of these programs....
>
> The Established Programs Financing Arrangements has balanced these approaches by ensuring that there will continue to be a substantial cash contribution made by the federal government....
>
> At the same time, the new arrangements go part way toward the request of some provinces that the federal financing for the programs be transferred to the provinces in the form of tax room.[1]

The federal contributions for these programs were to be in the form of cash payments and 13.5 percentage points of personal income tax and 1 percentage point of corporate taxable income. The transfer included the 1 point of personal income tax and cash equivalent in respect of the settlement on the revenue guarantee. In addition, the provinces had previously received 4.357 points of personal income tax and 1 point of corporate tax payable so the new arrangements represented an additional

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[1] Canada, House of Commons Standing Committee on Finance and Trade, p. 23:5, 8-3-1977.

transfer to the provinces of only 9.143 points of personal income tax.[1]

The cash payments for the major established programs consisted of a cash contribution, a transitional adjustment payment and levelling payments. The cash contributions are based on the per capita contributions for the three established programs in 1975-76, multiplied by the provincial population and adjusted by an escalator representing the average increase in gross national product over the past three years. The transitional payments are aimed at compensating for the wide variations in the value of tax points in different provinces. It guarantees that the provinces will receive as much in tax revenues and cash as if the entire federal contribution had been a cash grant. The levelling payments are provided to compensate for the per capita differences in previous shared-cost contributions among the various provinces. The legislation is aimed at having per capita payments similar at the end of five years. Provinces receiving per capita payments above the national average will be "levelled down" over five years. Those below the national average will be "levelled up" over three years. Table III provides details of these elements.

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[1] Mechanisms of a tax transfer are discussed in some detail in Perry, "The Federal-Provincial Fiscal Arrangements Introduced in 1977", and in Saskatchewan and Ontario Budget Papers. See also Appendix B.

TABLE III

Established Program Financing by Component

Total EPF Transfer to Provinces for 1977-78
($ million)

	Basic Cash Grant	Transitional Adjustment Payment	Levelling	Equalized Tax Transfer	Total* Package
Newfoundland	80.5	6.8	-10.5	73.8	144.6
Prince Edward Island . .	17.5	1.5	-3.4	16.1	30.4
Nova Scotia	120.2	10.1	-8.3	110.1	223.2
New Brunswick	100.0	8.4	-13.8	91.6	178.8
Quebec	898.6	75.8	-8.6	1,216.6	1,760.1
Ontario	1,210.4	-	+0.8	1,299.6	2,405.7
Manitoba	148.0	12.5	-10.6	135.6	274.5
Saskatchewan	135.7	11.4	-15.5	124.3	245.9
Alberta	266.8	10.5	+4.8	256.3	517.7
British Columbia	365.4	-	-39.0	385.0	680.3
TOTAL	3,343.1	137.0	104.1	3,700.0	6,160.8

Source: Department of Finance, House of Commons Standing Committee on Finance, Trade and Economic Affairs, Minutes of Proceedings, Tuesday, March 8, 1977, p. 23A:2.

*Totals do not take into account the tax transfer recovery overpayments or the Quebec abatement.

B. EVALUATION OF NEW ARRANGEMENTS

1. Financial Implications

It is interesting to note the financial implications of the "package" which was implemented in the new Act on April 1, 1977. Federal projections of monetary values of each of the various aspects of the arrangements were presented to the House of Commons Standing Committee on Finance, Trade and Economic Affairs on Tuesday, March 8, 1977.

Under the provisions of the Act, the federal government was expected to pay approximately $12.8 billion in 1977-78. Table IV gives details of these payments. If one focuses on the established program financing element of the new arrangements there was a considerable projected improvement in the financial position of the provinces as a whole. The amounts change over time because of the different escalator rates of the various elements of the transfer (cash and tax points). The federal contribution for 1977-78 was considerably higher than it would have been under the old arrangements[1] and the transfers had considerable growth potential.

> ... equalization payments in the current fiscal year would be about $2.5 billion. The importance of this program in underpinning provincial financing can be illustrated by noting that payments under this single program regularly amount to about 25 per cent of gross general revenues in each of the four Atlantic provinces, to more than 10 per cent in the

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[1] Detailed comparisons of the two alternatives appear in Appendix D. The federal government had already announced changes to the previous arrangements prior to the beginning of the 1976 negotiations.

TABLE IV

Established Program Financing and Equalization
($ million)

(Total Per Capita in Dollars)*

	1977-78	1978-79	1979-80	1980-81	1981-82
Newfoundland	387 (688.49)	439 (722.89)	496 (864.11)	544 (937.77)	593 (1,010.56)
Prince Edward Island .	89 (731.30)	103 (836.04)	118 (945.51)	130 (1,028.48)	143 (1,116.32)
Nova Scotia	525 (626.12)	597 (706.17)	671 (787.19)	739 (859.70)	807 (930.15)
New Brunswick	431 (617.21)	498 (703.29)	570 (793.76)	633 (869.15)	697 (942.66)
Quebec	2,984 (475.81)	3,343 (530.53)	3,695 (583.60)	4,038 (634.66)	4,378 (684.07)
Ontario	2,405 (284.71)	2,760 (322.37)	3,124 (360.00)	3,497 (396.30)	3,987 (433.59)
Manitoba	439 (425.06)	503 (484.40)	565 (542.09)	619 (589.58)	674 (637.77)
Saskatchewan	309 (326.26)	353 (367.90)	407 (418.64)	446 (452.75)	482 (482.43)
Alberta	517 (277.61)	600 (315.64)	688 (354.60)	769 (388.25)	853 (421.44)
British Columbia . . .	680 (266.72)	809 (309.85)	948 (354.54)	1,066 (389.22)	1,193 (424.87)
TOTAL	8,766	10,005	11,283	12,470	13,690

Source: Department of Finance, House of Commons Standing Committee on Finance, Trade and Economic Affairs, Minutes of Proceedings, Tuesday, March 8, 1977, p. 23A:15.

*Totals do not take into account the tax transfer recovery overpayments or the Quebec abatement.

> cases of Quebec and Manitoba and, on average to about 5 per cent in Saskatchewan. It is probably not possible to overestimate the impact that the equalization program has in the lower income provinces. It is also worth noting that federal contributions to the provinces under the Established Programs Financing will come to about $6.5 billion in the current fiscal year. These contributions, in conjunction with the equalization payments, will total almost 21 per cent of provincial gross general revenues, ranging from about 10 per cent in Alberta, a non-equalization receiving province, to well over 35 per cent in each of the four Atlantic provinces.[1]

Against these gains, the provinces set the end of the revenue guarantee under which the federal government had transferred almost $900 million in 1976.[2] See Table V for details. The provinces were unsuccessful in maintaining this program.

2. Program Evaluation

In many ways, the new arrangements are distinctly more satisfactory for both federal and provincial governments.[3] On a general basis the federal government had managed to protect those principles of financial arrangements which it had outlined at the beginning of the discussions; the principles of accessibility, accountability and uniformity. In addition, they had gained agreement for a new style of arrangements with respect to the established programs. Under the new arrangements, the federal government had clearly

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[1] Rubinoff, Federal-Provincial Relations, p. 23.

[2] Perry, "The Federal-Provincial Fiscal Arrangements Introduced in 1977", p. 436.

[3] For more details see Monthly Review, Bank of Nova Scotia (Toronto, March-April 1977).

TABLE V

1972-1976 Revenue Guarantee
($ million)

	Tax Year Entitlements*			Fiscal Year Payments*		
	1974	1975	1976	1976-77	1977-78	1978-79
Newfoundland	8.6	11.8	18.4	18.5	5.8	4.6
Prince Edward Island.	1.9	2.6	4.1	4.0	1.2	1.0
Nova Scotia	12.4	17.0	26.3	25.2	8.2	6.6
New Brunswick . . .	11.0	15.4	24.4	21.3	7.5	6.1
Quebec	95.7	134.4	205.7	219.5	64.5	51.4
Ontario	173.2	231.6	340.8	379.4	109.0	85.2
Manitoba	21.4	29.0	44.2	41.3	13.8	11.1
Saskatchewan	18.8	24.5	36.8	39.2	11.6	9.2
Alberta	39.3	50.7	74.0	73.3	23.8	18.9
British Columbia . .	43.8	62.3	94.8	121.6	29.8	23.7
TOTAL	426.1	579.3	869.5	943.3	275.2	217.4

Source: Department of Finance, House of Commons Standing Committee on Finance, Trade and Economic Affairs, Minutes of Proceedings, Tuesday, March 8, 1977, p. 23A:21.

*Not all of these payments made in respective fiscal year, which accounts for differences.

defined obligations for the fiscal transfers in respect to the major programs. It had assurances that the provinces would continue to maintain certain national program standards such as portability and accessibility. The conditions for the health programs are comprehensiveness of coverage with regard to services; universality of coverage with regard to people; portability of benefits; accessibility of services uninhibited by excessive user charges; and finally, nonprofit administration by a public agency. And perhaps most important from the federal government's perspective, the federal total transfers to the provinces now had some growth control mechanisms.

From the provinces' perspective, they had managed to preserve all of the favourable aspects of the former arrangements except for the revenue guarantee scheme. With the new arrangements with respect to the major programs they had gained a great deal of program flexibility. No longer would provincial programs with respect to health, medicare and post-secondary education have to conform to strict categories for delivery and accounting. Extensive monitoring and auditing procedures by federal departments of provincial programs were no longer necessary. A greater degree of stability had also been instituted. The mix of cash grants and tax transfers gave more assurance of continuity and predictability in provincial receipts than had the conditions existing under shared-cost programs.

C. GOVERNMENTS' REACTIONS

In addition to the evaluation of the new arrangements, another important consideration is the governments' publicly stated perceptions of the final settlement. The new Act was seen as a package which had been accepted by all, even though some governments were less enthusiastic than others.

The federal government in general saw the new Fiscal Arrangements and Established Programs Financing Act as conforming to the fundamental principles and priorities as set out by the federal government at the beginning of negotiations. With respect to new financing arrangements for shared-cost programs, Mr. Macdonald had this to say:

> The new financial arrangements ... are the result of months, indeed years, of detailed discussion with the provinces to find that balance among the multitude of goals .... I would like to point out two important facts: first, all provinces have agreed that the new arrangements were an appropriate choice from among the alternatives formally considered; and secondly, even though there were very detailed discussions about the exact amount of money that should be transferred ... the consensus position presented by the provinces agreed with the fundamental principles and approach contained within established program financing. The new financial arrangements were fundamentally acceptable to all provinces because they were appropriately tailored, after long discussions with the provinces, to meet the diverse needs and situations that exist within the regions of this country.[1]

While most provinces indicated agreement with the

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[1] Honourable D. S. Macdonald, House of Commons Standing Committee, (8-3-77) p. 23:5.

basic principles and directions of the new arrangements various provinces tended to express negative feelings about certain aspects of the final settlement. Some provinces indicated that the new federal-provincial arrangements would mean a revenue shortfall for their provinces. Manitoba pointed out that this shortfall could be in the range of $34 million to $70 million for the 1977-78 fiscal year.[1] British Columbia also stressed a potential shortfall: "While our revenue yield suffers in comparison with the current arrangements, the settlement is higher than the original federal offer which was for no compensation beyond the current arrangements."[2] Saskatchewan foresaw the "total financial impact of the new arrangements on Saskatchewan" as significant due to losses on the revenue guarantee, shared-cost arrangements, equalization and the recovery of overlap payments.

> ... while I can appreciate the federal government's desire to control their spending, given the size of their deficit, it will be very difficult for the provinces to absorb the loss. It will be more difficult for the poorer provinces than it will be for the rich.[3]

Newfoundland expressed concern over the equitability of the new arrangements criticizing the federal government's

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[1] Manitoba, Budget Speech, April 22, 1977, p. 135. The $34M represent the certain shortfall caused by the termination of the revenue guarantee. The $70M was the potential revenue loss from the end of sharing of alternative health services, equalization changes on school property taxes and the payment of "overlaps".

[2] British Columbia, Budget Statement, January 24, 1977, p. 14.

[3] Saskatchewan, Budget Statement, by the Honourable Walter Smishek, March 10, 1977, p. 21.

failure to make such an equitable sharing one of its major priorities, and foreseeing the increase in disparities of programs between provinces.

> In summary, E.P.F. and other elements of the new arrangements will result in increasing provincial disparities because of federal failure to equalize abated tax points to the highest yielding province and their refusal to provide sufficient tax room to cover provincial losses suffered from cancellation of the revenue guarantee program .... However, the arrangements do have the advantage of giving the provinces greater control over their expenditures and reducing federal influence over provincial spending priorities.[1]

Saskatchewan also stressed the serious inequities in the new arrangements due to the failure on the part of the federal government to agree to the joint provincial proposal to equalize the new EPF tax room to the yield of the highest province. Quebec also based its major criticisms of the new arrangements on the federal refusal to equalize to the top province and the effects that this stipulation would have on the less prosperous provinces.

> ... the inadequacy of the new fiscal arrangements is most apparent, since the fiscal sharing is not in any way altered, unless it is to the advantage of the federal government. Although the new arrangements provide for a fiscal transfer to the provinces, there is no real change because the apparent improvement in fiscal sharing is cancelled out by an equivalent reduction in the financial contribution of the federal government to establish programs. In addition, the number of tax points involved in a fiscal transfer is calculated in terms of the provinces which have the highest per capita income from taxes,

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[1] Newfoundland and Labrador, Budget 1977, April 28, 1977, p. 34.

> resulting in a loss for the provinces with tax revenues below the national average.[1]

Those who had gained the most in terms of their initial positions and in financial terms tended to be highly complementary of the new programs. In addition to the program benefits of increased autonomy in designing, financing and delivery of these programs, Alberta stressed the favourable impact of the new agreements on provincial revenue flexibility.

> The major advantage to the Province of the new arrangements is a greatly expanded ability to determine its own priorities. The shift to greater provincial financial responsibility will be accommodated without extra burden on Alberta taxpayers....[2]

Ontario also praised the new agreements with special emphasis on the Established Programs Financing Arrangements.

> They stand as proof that substantial progress can indeed be made in terms of streamlining the relationships between the federal and provincial governments. The federal government achieved its basic objectives, while the provinces achieved the flexibility that they sought. In the process, the accountability of government has been enhanced, for the government that is doing the spending is now more responsible for raising the revenue to finance it. There is great scope for further disentanglement of responsibility in the Canadian Confederation. The success of the 1976 negotiations suggests that a satisfactory resolution can be reached through hard work, constructive criticism, and a willingness to compromise.[3]

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[1] Quebec, Budget Address, April 12, 1977, p. 14.

[2] Alberta, Budget Address, March 11, 1977, p. 6.

[3] Ontario, "Federal-Provincial Fiscal Reforms", Background Paper to the Budget, April 19, 1977, p. 11.

CHAPTER IV

THE INSTITUTIONAL SETTING

A. MECHANISMS OF INTERGOVERNMENTAL ACTIVITY

From its inception in 1867, the Canadian federal system has had to manage an ongoing conflict between the aspirations and interests of its different political units and has had to face the problems arising from divided responsibilities. Revenue sources and the allocation of legislative responsibilities are quickly put out of balance in a federal system. As this imbalance increased so did the need for interaction. Canada has suffered from a chronic imbalance in the federal-provincial financial area. The constitution assigned the central government very wide taxing powers while the provinces retained responsibility for the policy areas of health, welfare and education, which in the post-war years generated increasing demands for programs and expenditures. During the 1950's and 1960's attempts were made to overcome this imbalance through greater interaction between governments.

Another factor which has added to the necessity for a high level of interaction between governments in Canada is the difficulty which has been encountered in attempting to change the original distribution of revenues and responsibilities. The British North America Act did not provide a formal amending procedure; this problem itself has generated extensive federal-provincial negotiations over the last fifty years.

However, the lack of a formal procedure has meant that flexibility in the Canadian system has had to be generated in other ways, the most important of which has been the development of federal-provincial conferences. It has been the major means of getting around a strict constitutional division of powers. Since the Second World War, this interaction has become so extensive that the process of intergovernmental activity has gradually developed into a more formal, more institutionalized and more central part of policy-making in Canada. The system of meetings and conferences which has emerged provides a forum for the resolution of conflicts between governments and injects a much needed degree of flexibility into the political system. Through this process, ideas are expressed and exchanged, positions are presented and problems are recognized and hopefully resolved.

It must be emphasized, however, that there are various characteristics of the intergovernmental negotiating process in Canada which have an adverse effect on decision-making. With eleven governments, representing regionally diverse areas, different policy perspectives and political priorities, the negotiation process and the search for consensus, is usually long and difficult. Quick and decisive action is not compatable with meaningful consultation and negotiation.

The intergovernmental consultative process has also developed to a large extent outside of the parliamentary

process. Parliament and provincial legislatures have little role in the negotiating process; much of which takes place between the executives of governments. However, decisions reached through the consultative process are not legally binding. Intergovernmental decisions require the subsequent action of legislative bodies in order to become law. Although it is not the subject of this paper, the question of whether executive federalism is usurping Parliament is one of high importance. It is sufficient at this stage to point out that the Established Programs Financing Proposal was presented to Parliament on June 14, 1976, and that opportunities existed for comprehensive debate on the issues by Parliament and Provincial Legislatures in the following months.[1]

Another factor arises from the tendency of most intergovernmental meetings and conferences to be closed to public scrutiny. The secrecy of the process makes public awareness of the issues and alternatives extremely difficult. The process is not subject to the same rules and norms of governmental responsibility and accountability as is the legislative process. The tendency for most negotiations to take place among the executives of government has an influence on the focus of examination of policy issues. Autonomous governments are often reluctant to contain their range of options and initiatives through joint decision-making.

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[1] For further examination of this issue see W.A.W. Neilson and J. C. MacPherson, The Legislative Process in Canada, the Need for Reform (Institute for Research on Public Policy, Victoria, 1978).

Intergovernmental negotiations are often seen as a competitive process which tends to focus the attention of the participants on major issues of jurisdictional responsibility and financial implications. Discussions on matters of policy substance or long-term goals and priorities are often overlooked. The very political nature of the intergovernmental bargaining process must be stressed.

The most important site for intergovernmental negotiations in Canada are intergovernmental meetings and conferences. The conference format has evolved primarily since the Second World War, and has become an important and recognized mechanism for making adjustments within the Canadian federal system. The growth in the number of federal-provincial and interprovincial conferences has been dramatic in recent years.[1] This contact reflects the increasing extent to which the activities of each level of government affect the activities of the other and the consequent need for continuing consultation and co-ordination.

> The focal point of federal-provincial negotiation is the federal-provincial conference. The conferences provide the chief arena within which executives of the eleven governments deal with each other. As more and more important national policies become matters for federal-provincial concern, so the federal-provincial conference has become a more and more crucial element in the Canadian federal system. Despite its importance, the position of the conferences remains fluid.

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[1] See Appendix D, Federal-Provincial and Interprovincial Conferences 1974-1978, for an overview of the growth and focus of such conferences.

> They have no legislative sanction, have few formal rules or procedures, and, most important, have little institutional life of their own.[1]

Intergovernmental conferences and meetings have tended to be an effective forum for initiatives and control of negotiations by the federal government. In most cases the federal government control many of the administrative details of the federal-provincial conferences. They initiate issues, call meetings, develop agendas, chair proceedings, and undertake follow-up. They also control when and where consultation takes place and the degree to which the wishes of the provinces are integrated into national policy. The provinces to a great extent are put in the position of reacting to federal initiatives. However, in recent years the provinces have begun to take a more active role in the intergovernmental scene. They have demanded a greater voice in federal-provincial decisions and have begun to press for more say in the development and implementation of national policies. Some of this development may be attributed to the fact that provinces have begun to use the intergovernmental conference format to their own advantage. In addition, provinces have made significant improvements in their internal capabilities to partake in intergovernmental negotiations.

The mechanisms of intergovernmental activity have a significant effect on the process of negotiation. The

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[1] Simeon, Federal-Provincial Diplomacy, p. 143.

financial negotiations of 1976 can be seen as an ongoing process which reached certain plateaus at each major conference. Each conference streamlined the problem to some degree. In early 1976, there was a wide range of complex issues to be considered. By December, the First Ministers had a relatively limited number of those issues remaining. These conferences also gave the provinces a means through which they, individually and collectively could influence the final outcome.

B. FEDERAL-PROVINCIAL ACTIVITY

A great deal of intergovernmental interaction in Canada takes place on the federal-provincial level. A survey of such meetings shows the increase of such activity from year to year as well as the changing patterns of intergovernmental activity.[1]

During 1976, finance was the most active area of intergovernmental activity. The extensive negotiations took place in multilateral, regional and bilateral meetings. In addition, the issues were considered by first ministers, ministers, deputy ministers, and officials. The machinery for intergovernmental activities in the finance area has existed for some time and can be regarded as one of the more permanent on the federal-provincial scene.

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[1] See Appendix D, Growth of Federal-Provincial and Interprovincial Meetings and Conferences 1974-1977.

1. First Ministers' Conferences

Meetings of the heads of the eleven governments in Canada have taken place throughout Canada's history although they have met with different frequency at different times, and have focused on different issues. In recent years, the first ministers have spent considerable time on the issues of energy, inflation, the state of the economy, financial arrangements and the constitution.

The First Ministers met twice during 1976 to discuss the new fiscal arrangements and established programs financing. Although it is difficult to make precise evaluations of what is accomplished at such conferences, the plenary sessions must be recognized as the pinnacle for federal-provincial negotiations. At each of the Conferences important developments took place.

In June a new proposal for federal financing was unveiled. In addition, details were put on the priorities and proposals of the federal government's position regarding a new Fiscal Arrangements Act. The Prime Minister attempted to put some parameters on the extent of negotiable items. In addition, the ten provincial Premiers outlined in some detail their positions. Little negotiation took place although considerable time was spent discussing the problems of the revenue guarantee. Thus this exchange could be seen primarily as a means of informing each other of positions; of stating publically what each government wished to see in the final

settlement. All of the presentations can be viewed as important policy papers.

In December the First Ministers met, in private session for the most part, to hammer out a final settlement. By that time positions had been established: interprovincial discussions had taken place; technical projections of revenues had been produced; proposals and counterproposals had been made; bargaining had been intensive; there had been some change in positions. But it was up to the First Ministers to make the final adjustments, to put the details in the final settlement. A compromise agreement did emerge from the December meeting. A compromise which then became the basis of legislation which was produced and presented to the Parliament of Canada.

In many respects, Ottawa played a dominant role throughout these conferences. The federal government called the meetings and to a large extent set the agendas and the limits of discussion. To their credit, the federal government had given the provinces advanced warnings of their proposals. This meant that provincial responses were prepared and that initial positions could be established at the June meeting. The Prime Minister, as is usual, chaired the meetings, which gave him considerable control of the direction of the discussions.

2. Meeting of Ministers of Finance and Provincial Treasurers

Three federal-provincial meetings of Ministers of Finance took place with respect to the new financing arrangements. The Ministers of Finance and Provincial Treasurers have met regularly since 1959 to discuss the general economic and financial situation, recognizing that the fiscal policies of both federal and provincial governments have direct and immediate consequences on each other. This permanent committee has also been responsible for detailed negotiations on the various Fiscal Arrangements Acts in the past.

Much of the technical negotiation in finances is done at this level among those Ministers most aware of the issues, the alternatives and the implications of the vast network of financial proposals. During 1976, the Finance Ministers did accomplish a great deal if one examines the outcome of the initial meeting in April and the relatively limited number of outstanding issues which they presented to the First Ministers' Conference in December. During these negotiations, to a much greater extent than in the past, the major issues remained for First Ministers' consideration. A great deal of detailed work went into producing a relatively comprehensive package.

However, if one examines the negotiations from another perspective, it was during the federal-provincial Ministers meetings that the most tension and animosity was generated. Some of this may result from the fact that the

Ministers knew that Premiers and Prime Ministers would inevitably have to be involved in the consideration of such crucial matters and therefore they had little to gain from bending their position before the final round of negotiations. In addition, personalities added to the tension. It seemed obvious throughout the negotiations that Donald Macdonald had been "designated" as the federal "heavy". He gave little indication of bending from his commitment to restraint and to stopping the traditional "give-away" to the provinces. His abrasive behaviour also tended to aggravate the climate of negotiations.

3. Continuing Committee of Officials on Fiscal and Economic Matters

Finance officials meet as the Continuing Committee which is a permanent intergovernmental mechanism established in 1955. It is formally made up of the eleven deputy ministers of finance or provincial treasurers although other officials regularly attend. For example, during the 1976 negotiations, intergovernmental officials from various governments attended all of the meetings. The Continuing Committee played a significant role in the negotiations. They prepared all work and presented alternatives in ways which were easily grasped by their political masters.

There are various benefits flowing from the permanent nature of this Committee. Facilities are well organized for preparing and distributing technical documents for the

consideration of all members. In addition, summary records of the proceedings and follow-up work are quickly and efficiently produced by the federal Finance staff. Thus those benefits which can be gained from a formal institutionalized intergovernmental procedure are at the command of the intergovernmental finance officials.

Secondly, the permanence of the body contributes to the relatively good relations to be found among the members. Although governments may not always agree, there is a tendency at the official's level to attempt to co-operate on technical aspects of the problems in order to make the political decision-making as clear cut as possible. During 1975 and 1976, Continuing Committee members met frequently, first on the Anti-Inflation Program and then on the Fiscal Arrangements and Established Programs Financing Act.

> This sense of community has some important consequences for the negotiations. First, the officials are highly motivated to find agreement, hence minor disagreements can be settled before they fester and burst out at the political level. Second, it facilitates free and easy communication - each government is made fully aware of the positions of others .... This communication has meant fewer misunderstandings, and better preparation for the first ministers' conferences. The underbrush is cleared away. Federal officials often brief the provinces on proposals to be presented at later ministerial meetings. The informal discussion also permits wide-ranging discussion far beyond specific technical details .... This may help to build consensus on future policies and again help to minimize conflict.[1]

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[1] Simeon, Federal-Provincial Diplomacy, p. 135.

Finally, the Continuing Committee has a considerable effect in the financial area because of the nature of its membership. The various officials represent many of the Canadian experts on federal-provincial finance. They also have at their command the technical expertise of their various bureaucracies. The information and technical studies which are produced are usually very comprehensive. During the 1976 negotiations, projections were continually being produced regarding the financial implications of the various proposals and alternatives. This made the political decisions more clear cut.

C. INTERPROVINCIAL CONFERENCES

One of the more interesting developments which occurred during the 1976 financial negotiations was the development of a joint provincial position. The growth of interprovincial activity has been an important recent development in the Canadian federal system. The impact of such activity can be seen from the overview presented in Appendix D. During the 1970's there has been an increasing tendency for the provinces to develop joint positions and to negotiate with each other, without federal participation.

Interprovincial conferences in the past took place on matters of concern primarily to the provinces. For example, the Council of Ministers of Education, which was formed in 1967, is an interprovincial education agency which

enables Ministers of Education to consult on a regular basis and provides the mechanism for co-operation and liaison between provincial governments. Other permanent interprovincial bodies have also been established. Regional interprovincial activity has also been part of the Canadian system. The Maritime Premiers' Conference and the Western Premiers' Conference have been in place to consider matters of concern to their regions.

During the 1960's and early 1970's the provinces had co-operated on issues of federal-provincial concern. Most of this activity was primarily concerned with a reaction to some federal unilateral move or a request for some general kind of action. For example, the provinces had jointly criticized the federal move on the deductibility of royalties, called for action on inflation, and strongly disagreed with the federal unilateral moves on shared-cost programs.[1] However, in 1976, for the first time, the provinces presented a common comprehensive position to the federal government during the course of the negotiations.

> In the 1950's and 1960's co-operative federalism was a vehicle for federal leadership. In the 1970's the same machinery has become the mechanism through which the provinces have become much more important political actors.[2]

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[1] Communiques, Annual Premiers' Conferences, 1973, 1974, and 1975.

[2] Richard Simeon, "Federal-Provincial Decision-Making", in Ontario Economic Council, Issues and Alternatives 1977, Intergovernmental Relations (Toronto, Queen's Printer, 1977).

In general then, the interprovincial machinery which had been in place for some time was used to its full potential during 1976 in order to produce a provincial consensus on a major issue of federal-provincial importance.

1. Western Premiers' Conference

Formal meetings of the Western Premiers date back to 1965, with the first meeting of the Prairie Economic Council. Since 1973, the Province of British Columbia has been included in the regional meetings, and the Conference which meets on a regular basis has come to be known as the Western Premiers' Conference. Certain policy issues are of primary concern to the western provinces. Attempts have been made at Western Premiers' Conferences to achieve greater co-operation among these provinces on the issues of agriculture, transportation, environment, industrial strategy and education.[1] In recent years, the western provincial governments have become increasingly aware that their bargaining power in areas of federal-provincial concern can be substantially strengthened through the development of joint positions. Such a consideration was behind the development in April 1976 of a common negotiating position on fiscal arrangements and shared-cost programs financing which was forwarded to the federal government and referred to during the federal-provincial negotiations in June. This joint position was an important example of

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[1] The Western Premiers' Conferences, Internal Document prepared by Alberta Federal and Intergovernmental Affairs, 1977.

interprovincial co-operation; the beginning of co-operation which would have a noticeable impact on the federal-provincial negotiations.

2. Annual Premiers' Conference

The Annual Premiers' Conference was established in 1960 on the suggestion of Premier Lesage of Quebec. It was originally expected that there would be two principal benefits to be gained from the establishment of a permanent inter-provincial mechanism. Such meetings would be valuable for co-operation, first for the exchange of information and then for the development of common action. Secondly, it was expected that this mechanism would be used to discover areas where uniformity was desirable and to promote it. The Premiers, both during and after their first conference repeatedly stated that the establishment of this body should not be seen as a threat to the federal government. Their communique emphasized:

> ... that in no sense could a Premiers' Conference substitute in whole or in part for a Federal-Provincial Conference ... they agreed to confine their attention to subjects which are purely provincial and interprovincial in their effects and which would in no way impinge on the area of federal-provincial collaboration and action.[1]

Initially, the Annual Conferences were low-keyed, informal meetings which tended to steer away from issues which

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[1] J. H. Atchison, "Interprovincial Co-operation in Canada", in J. H. Atchison (ed.), The Political Process in Canada (Toronto, University of Toronto Press, 1963), p. 155.

were currently being negotiated in the federal-provincial context. But gradually over the years, the Premiers began to turn a greater amount of their attention to matters which were of immediate concern to all governments.[1] By the mid-1970's the Conference was thus being used as a mechanism to focus on issues which were often dictated by the state of federal-provincial relations - energy, inflation, the constitution. The Conference has also provided a formal link with numerous other interprovincial conferences and in some cases has encouraged the development of other mechanisms for interprovincial co-operation. Thus gradually through these developments the process of elaborating common positions and strategies was being enhanced.

In 1976, the 17th Annual Premiers' Conference devoted considerable time to issues of a federal-provincial nature. This highlighted a gradual shift in emphasis from previous years where such discussions had been downplayed in order to avoid the appearance of "ganging up on Ottawa". The provinces were leaning more and more toward the development of a common provincial stand on federal-provincial issues.

3. Interprovincial Finance Ministers

Following the August Conference, the Premiers called upon their Finance Ministers and Provincial Treasurers to consider various alternatives which were before the governments

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[1] Details from internal working document, Alberta Federal and Intergovernmental Affairs.

concerning the established programs financing and various aspects of the fiscal arrangements. Although such a committee had never met before, the Ministers had all worked together on the federal-provincial committee. However, it is important to stress that the dynamics of the group was considerably different when they met as an interprovincial rather than a federal-provincial body. The working relationship was much less strained without the federal finance representatives. The same held true for the officials who did the technical work in preparation for the provincial consensus. Good working relations had previously been established as had much of the technical capabilities for continuing the negotiations on the interprovincial level.

CHAPTER V

THE PROCESS OF NEGOTIATIONS

Attention should be turned to the style of the federal-provincial negotiating process in order to throw some light both on the process and on the impact of bargaining on the policies which emerge. In the previous chapter data were presented attesting to the rapid growth in recent years of the frequency of intergovernmental consultation. Most analysts portray the growing interdependence of governments in Canada as the root cause of such activity. Over the years it has become more difficult to pinpoint public policy issue areas which do not require the involvement of both federal and provincial governments. As this interdependence has grown so too has the recognition of the necessity of involving both orders of government in the development and implementation of major policy issues. It is necessary to focus on changes in the style of intergovernmental activity in order to understand the impact of this process on policy development.

> ... there is a connection between the substance and the style of federal-provincial relations. The connection seems to me to be this: The sheer range and complexity of the federal-provincial issues which have emerged over the past five or ten years have occasioned a marked strengthening of the capacity of governments and their advisors at both levels to deal with the problems faced jointly by the federal and provincial governments and with each other. At the federal level, this had led to a heightened sensitivity of the particular concerns of the various provinces. At the provincial

> level, this has led to an increased understanding not only of the difficulties the federal government experiences in dealing with ten provincial governments but of provincial points of view. All of this has had, I believe, a significant effect on the way in which the two levels of government deal with each other.[1]

Although it may be premature to determine if in fact a new style of federal-provincial relations has developed in the seventies, focus on the 1976 financial negotiations highlights various distinctive trends in comparison to previous negotiations. These trends may have profound implications for future intergovernmental relations.

The first distinctive aspect of the negotiations surrounding the development of the Fiscal Arrangements and Established Programs Financing Act was the wide range of issues which were to be considered. The final settlement which was reached encompassed all of the original aspects. The negotiations covered the equalization program, revenue guarantee and stabilization programs, tax collection agreements, changes in the contracting-out arrangements with Quebec, and new financing arrangements for medicare, hospital insurance and post-secondary education programs. A "package" agreement was reached on all of these issues; a package which was acceptable to all governments.

The second distinctive feature of the negotiations was the high degree of interprovincial co-operation. On the

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[1] Rubinoff, Federal-Provincial Relations, p. 3.

average, fiscal arrangements have been renegotiated every five years. In 1976, for the first time, the provinces presented a joint position to the federal government. This position was developed within the context of the federal-provincial negotiations. The provinces had not entered the discussion in April with agreement on any of the major issues. The federal position and negotiating strategy and the fundamental nature of the changes proposed, encouraged the provinces to examine their own positions on an interprovincial basis. During these interprovincial discussions there tended to be less posturing and more willingness to make trade-offs. The process which finally led to the December agreement illustrates the importance and potential of provincial co-operation in federal-provincial negotiations. It is difficult to determine what impact such co-operation may have in future negotiations.

> Provinces are thus tending to negotiate their differences among themselves, and present Ottawa with an agreed position. This could greatly increase their bargaining power, making it harder for Ottawa to pursue a policy of divide and rule. Provincial unanimity is likely to be limited, however. Interprovincial differences on many issues--between oil consumers and oil producers, between richer and poorer provinces and between Quebec and other provinces--are likely to remain.[1]

The process of intergovernmental negotiations can be examined in more detail by applying a bargaining model. Richard Simeon in his study of federal-provincial negotiations examined the nature of the process.[2] Without evaluating all

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[1] Simeon, "Federal-Provincial Decision-Making", p. 30.

[2] Simeon, Federal-Provincial Diplomacy.

of the variables which Simeon builds into his model, attention will be turned to the aspects of issues, resources and strategies which are components that had considerable effect on the style of the 1976 financial negotiations and subsequently on the policies which emerged from these negotiations.

A. ISSUES

In a previous chapter a description was presented of how the major issues of the financial negotiations arose and how they were defined in terms of government positions. Attention will now be turned to what impact these issues had on the process of negotiation. Federal-provincial fiscal arrangements have been an issue of ongoing concern in Canada and have been subject to frequent negotiations. In the past the negotiations often took place at one or maybe two formal meetings. In 1976, a series of meetings was required. The issues for the most part were familiar ones to the governments and to many of the individuals involved in the bargaining process. This was especially true at the officials' level; many of the political actors had changed. The familiarity with issues, and the expertise on the various technical aspects which had been developed within the respective governments had a noticeable effect on the process of negotiation.

Government positions on the major philosophical issues relating to the sharing of resources and responsibilities had been articulated in the past and did not tend to change

considerably. In general, previous positions reappeared in the initial policy statements in June. This had a special effect on the federal government which formulated its starting position both in terms of its own priorities of restraint and equality of treatment and in terms of what it hoped would prove acceptable to a wide range of positions among provinces. The definition of negotiable items was more quickly accomplished on a recurring issue such as finance than it would have been on an issue being examined for the first time. Within months, the complexity of items was streamlined to the question of the revenue guarantee, the equalization formula and the cash/ tax room mix suitable for the established programs financing. In relative terms, a great deal more was decided in a much shorter time during the financial negotiations than during various other negotiations.

B. POLITICAL RESOURCES

In terms of political resources and the impact such factors may have on negotiations, Simeon found them extremely hard to quantify. He focused on legal resources, political support, skills and expertise, objective information, size and wealth, and procedures and rules. In general, the conclusions indicated that such factors vary considerably in importance from issue to issue and in fact may continually shift during the process of negotiation on any individual issue As a general trend, the political resources of the provinces in federal-provincial relations have tended to increase in

recent years. There has been a growing importance of the matters under provincial jurisdiction. In addition, there has been a considerable increase in the competence of provincial administrations, of their ability to deal with complex issues and especially the development of a high level of expertise in the intergovernmental area.

Although there are indications of increasing provincial power and capabilities in terms of federal-provincial relations, in terms of political resources Ottawa maintained a considerable degree of power both entering the 1976 financial negotiations and throughout the process. Both orders of government in Canada have some constitutional jurisdiction in the taxation field. However, in terms of the actual fiscal arrangements, the federal government is able to determine the final terms.[1] The provincial bargaining position is relatively limited. Although they can and did accuse the federal government of harming their fiscal positions and making retroactive changes to federal-provincial agreements in respect to the revenue guarantee, definite alternative action available

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[1] W. R. Lederman, "Some Forms and Limitations of Co-operative Federalism", The Canadian Bar Review, XLV (1967).

Lederman maintains that the text of the original constitution does provide definition and context for the various forms of intergovernmental co-operation that have developed in Canadian federal-provincial relations. In the past when negotiating federal-provincial taxation agreements the federal government has made the essential decisions and proposals. The provinces, particularly the economically weaker ones, have found themselves in a take-it-or-leave-it position. This is due mainly to the fact that under the BNA Act, the federal taxing power is much more potent than the taxing power of a province.

to the provinces was extremely limited. Except for the tax collection agreements which require the consent of participating provinces, the other aspects of the Fiscal Arrangements Act are federal legislative programs. Provincial agreement is not legally necessary. At one time, provincial participation in the tax collection agreements was thought to be so fundamental to the maintenance of a uniform tax system, that the threat of withdrawal had considerable impact on negotiations. However, over the years, the tax collection agreements have allowed for more and more provincial differences in tax systems. By 1976, the federal government was not as concerned over the potential threat of provincial withdrawal from the tax collection agreements. In terms of the shared-cost program discussions, the federal government had already unilaterally announced ceilings on expenditure growth and the termination of the Hospital Insurance Program, leaving the provinces with little recourse.

Another major resource which can be highlighted in the 1976 negotiations was control of the initiation of discussions and the impact that this factor had on both the definition of issues and the generation of public support for positions. The federal government had the powerful resource of initiation. Although the provinces were certainly prepared for negotiations on the Fiscal Arrangements Act and on changes to the major shared-cost programs, Ottawa was able to define initially the issues and the limitations of the negotiations. In the initial stages, the provinces were put

in the disadvantageous position of reacting to federal proposals. From the very beginning the federal government indicated that the net effect of the negotiating process should be considerable restraint in the growth of federal expenditures. What they proposed was a hardline inflexible position in terms of dollar values. The proposals were worded so as to generate political support for the government searching for restraint and good management. Most of the fundamental principles underlying both the fiscal arrangements and established programs financing were general enough to be acceptable by all. It was only in the proposed implementation methods of the various aspects that the commitment to restraint and to the goal of having the provinces increase their proportional share of financial liability became evident. The provinces also attempted to state their public reaction to federal initiatives in terms that would generate political support. For example the whole issue of revenue guarantee was explained in terms of adverse financial implications for provincial budgets. The provinces were concerned that the public perceive the problem in a way which would support their arguments. If any increase in provincial tax rates were required they wanted the blame laid at the feet of the federal government.

The third major resource available to the participating governments was skill and expertise. In this area, the federal government still maintained an edge although the provinces were certainly better equipped than in the past. Provincial arguments in favour of their positions registered a great

deal more sophistication than in previous negotiations. The internal expertise of each of the governments in dealing with a wide range of complex technical problems hastened the process of negotiation. Much of the discussion focused on financial techniques and implications of various alternatives. The expertise available meant that dollar values were quickly put on negotiable items. Differences in positions became easy to articulate and to quantify. Although the ability to quickly produce such projections may have speeded negotiations it also had the tendency to heighten certain areas of disagreement, as disputes arose over conflicting projections.[1]

The development of a package concept counteracted to some extent the tension on individual items. There is no inherent internal relationship between fiscal arrangements and shared-cost programs, except for the obvious impact of both on government budgets. The two policies were developed at different times and with different purposes. However, during the 1976 negotiations these two issues became closely linked, which might have aided the development of a solution. The federal government had as a priority the restraint of expenditures in the shared-cost programs. They wanted the provinces to agree to the termination of the Hospital Insurance Program by April 1, 1977. This may have given the provinces some leverage. Secondly, on individual items it becomes easier to define who wins and who loses in dollar

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[1] See Appendix E for information on differences in projections from provinces and the federal government.

terms. The development of a package concept made it easier for some give-and-take, some concessions to be made, without determining an obvious winner or loser in terms of the overall negotiations.

One of the notable aspects of the 1976 negotiations was the extent to which the debate took place largely in financial terms. There was little discussion beyond the opening statements on philosophical issues underlying the equalization program or the substance of the three major shared-cost programs. Although representatives of the program departments of health and education attended the June First Ministers' Conference they had little role in the process of negotiation. Thus the technical analysis of the financial implications and alternatives was crucial in the negotiations. In addition, the increased capacity of the provinces in this area became an important resource which added to their strength in negotiations. The provinces were able to analyze and react quickly on technical issues. Ontario and Quebec were able to table detailed alternatives backed up with information as adequate as the federal proposals.

A final resource which is always available in federal-provincial negotiations but which had never been used to the same degree in past discussions was solidarity among the provinces. In previous financial discussions, the cleavage had tended to be between rich and poor provinces with the federal government often taking the role of mediator

between conflicting positions. However, in 1976, the division became one of the federal government against the combined forces of the provinces. The decision to use the resource of solidarity to its full potential was the tactic which had the most obvious impact on the negotiations.

> The distribution of resources, then, varies from issue to issue and from time to time .... There are several reasons. The allocation of legal authority varies from issue to issue, as do the talents and expertise of the governments and the distribution of support and the attitudes of interested groups. Within each negotiation, particular events may give one or other participants great advantage.
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> The allocation of resources also varies greatly according to the subjective perceptions of the actors. A psychological dimension enters into their calculations about their own and others' resources. This stems from the ambiguity and uncertainty in the process.[1]

C. STRATEGIES AND TACTICS

Richard Simeon pointed out in his study that the participants in federal-provincial negotiations are also subject to political constraints which operate in different ways and with different force to limit the alternative actions. He indicated that "there is an intimate link between political resources and constraints and the kinds of strategies and tactics used by actors."[2] Strategies and tactics are seen as the methods of using resources and overcoming constraints.

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[1] Simeon, Federal-Provincial Diplomacy, p. 226.

[2] Ibid., p. 227.

As the basis of the types of constraints found in federal-provincial negotiations, Simeon outlined a network of various informal rules and norms of behaviour which he found in his study of negotiations in the sixties. In general these informal rules emphasized that explicit bargaining should be avoided. The process could be more clearly defined as "co-operative discussion". In specific terms, Simeon described these rules as follows: "don't gang up on Ottawa"; "don't be a localist"; and "don't attack other provinces". Finally, he found the norms frowned on the use of threats or attempts to trade support on one issue for support on another.[1] Political constraints are also shown to have an effect on the process.

> Thus the range of action open to most negotiators is a relatively narrow one because of the character of resources, prevailing norms, and the nature of the negotiation process.[2]

Although the various constraints have important effects on intergovernmental decision-making, for this paper focus will be put on the constraint of building a coalition against Ottawa. This was perhaps the most noticeable aspect of the 1976 financial negotiations; a feature which distinguished these negotiations from others in the past. It is thus important to attempt to shed some light on why the development of a provincial consensus was attempted and what factors led to the successful resolution of these interprovincial

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[1] Ibid., p. 232.

[2] Ibid., p. 239.

negotiations. It is also necessary to determine to what degree a new norm of behaviour - provincial co-operation - was being developed to take its place in the intergovernmental system, or whether the 1976 process was an individual occurrence which happened because of the specifics of the situation and is unlikely to become a more or less permanent feature of inter-governmental negotiations.

D. INTERPROVINCIAL NEGOTIATIONS

Premier Lougheed in his Press Conference following the August 1976 Premiers' Conference saw the development of intergovernment co-operation as a logical extension of an emerging trend.

> I think that's been a myth for a dozen years, this concept of 'isn't it terrible that the Premiers get together and gang up on the federal government.' Now there is a fair school of thought in this country that feels the reverse may be more important for Canadians; that it would be a very good thing for Canadian unity if the provincial governments in fact took very strong positions in unison in terms of balancing the position of the federal government.[1]

The most prevalent factors leading to the initiation of interprovincial negotiations on the financial issues were related to the climate of the federal-provincial negotiations. From the time of the initial federal announcement on the changes to and the termination of the revenue

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[1] Alberta, Premier Lougheed Press Conference at Conclusion of 17th Annual Premiers' Conference, August 1976.

guarantee, the negotiating climate had been extremely strained. This is understandable due to the large amount of money involved. The provinces indicated their disapproval with this proposal at each meeting, claiming both within the negotiations and during public announcements that the federal government had reneged on a federal-provincial agreement and that the provinces would suffer severe financial losses due to the unilateral federal move. In general they portrayed it as an unethical restraint move on the part of the federal government. As the negotiations on all of the issues, both financial and those dealing with shared-cost programs, proceeded and unfolded, the issue of the revenue guarantee was never far from the minds of the participants. By July, the provinces had become convinced that the federal government was not going to compromise on its original stand. Thus they were willing to take the potential risks involved, to go against the established rules of behaviour and initiate the process of interprovincial negotiations.

Although the revenue guarantee issue was certainly the most dominant feature which provided serious strain on the negotiations, provinces receiving equalization were concerned that the federal government might institute restraint measures on the level of equalization payments. On the shared-cost program issue it had also become obvious, by July, that changes would be made. A continuation of the previous system which was supported by some of the provinces, most notably Saskatchewan and the Atlantic provinces, no longer

seemed a viable option. Thus by July, these provinces were more open to suggestions that alternatives other than the federal proposal be examined. In this atmosphere it seemed logical to turn attention to examination of the two comprehensive proposals which had been presented by Quebec and Ontario. Prior to the Premiers' Conference, Ontario also undertook extensive discussions with the provinces in an attempt to turn attention towards their proposal, in the hope that it would serve as a focal point for the development of a common provincial reply to the federal government.

At this stage, it is important to note that the state of the financial negotiations had also been seriously affected by external factors emerging from the federal-provincial scene in general. During 1975, serious strains had been put on federal-provincial relations through the unilateral moves of the June budget and the imposition of the Anti-Inflation Program. A great deal of tension had been generated during the difficult negotiations surrounding the implementation of the anti-inflation program and the signing of the federal-provincial agreements. By the spring of 1976, the constitutionality of the federal legislation was being considered by the Supreme Court.

Another source of federal-provincial tension during this period was the constitutional discussions which had begun a new phase in early 1976. On March 31, 1976, the Prime Minister had written to the Premiers with a new proposal

on patriation of the constitution. Various alternative courses of action were laid out but behind them all lay the implicit threat that the federal government was willing to move on the issue of patriation without the agreement of the provinces.

> So far as the federal government is concerned, our much preferred course would be to act in unison with all the provinces. "Patriation" is such an historic milestone that it would be ideal if all Premiers would associate themselves with it.
>
> But if unanimity does not appear possible, the federal government will have to decide whether it will recommend to Parliament that a Joint Address be passed seeking "patriation" of the BNA Act.[1]

This action had led the provinces to an initial interprovincial meeting in May 1976. The Premiers had met in informal meetings prior to federal-provincial conferences in May and June and instructed their appropriate Ministers to undertake interprovincial discussions on the issues. By June, the process of developing an interprovincial consensus on the constitution to counter the federal threat had begun in earnest. This process was proceeding simultaneously with the financial negotiations and provided to some extent an example of the potential of interprovincial co-operation.

Thus the strained atmosphere of the financial negotiations, tensions within the federal-provincial scene and the development of other issues under negotiation all

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[1] Pierre E. Trudeau, Letter to all provincial Premiers, March 31, 1976.

contributed to some extent to the decision by the provinces to explore the possibilities of a provincial consensus.

> When goals are strongly held or when conflict is great it is likely the participants will be less bound by the norms (or hold different ones) and that they will be more willing to indulge in potentially risky tactics .... In addition, of course, strategic calculations will enter into the formulation of goals and objectives. Thus when preparing their positions governments must decide how much to push for, balancing what they hope to get with what they realistically expect to get, developing arguments which they hope will persuade Ottawa and win the support of other provinces ....[1]

Once certain conditions had been met which projected the provinces towards co-operation, the machinery necessary for such activity was quickly put into place. The initiative was not allowed to lapse but was rather caught up in the process and directed towards a successful conclusion. Preliminary discussions on the possibilities of a provincial consensus took place at the Premiers' Conference in August. Alberta, the host province, had established a secretariat to prepare for the Annual Premiers' Meeting. Once the Premiers had directed their Finance Ministers to explore the possibilities of joint action, this intergovernmental network was turned towards the consideration of the issues. In addition, the finance officials from the provinces had been working in close contact since the beginning of negotiations. Thus relations were established, positions known and to some degree

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[1] Simeon, Federal-Provincial Diplomacy, p. 253.

the technical work had been done. In a technical sense the extensive capabilities of the Ontario bureaucracy contributed most of the initial work although the other provinces all had a high degree of technical capability.

> The fact that all provinces were able to work out a common position in a short time on an extremely complex and wide-ranging set of interrelated issues, is, I think very significant. It reflects a technical capacity and a willingness to compromise which augurs well for future discussions.[1]

In many ways the dynamics of the process of negotiation also helped to contribute toward the tactic of interprovincial co-operation. By August the Premiers had a clear idea of each other's positions and perhaps as importantly of what the federal government was willing to compromise. At this stage the federal government appeared most inflexible. Over the years Premiers had become more aware of the potential and power of interprovincial co-operation. They were embarked on interprovincial discussions in general issue areas in August and already deeply involved in interprovincial discussions on the constitution. Thus based on various factors such as the high level of tension in the financial negotiations, on their perception of the federal government's unwillingness to compromise, on their perceptions of what could be gained through a consensus position, they undertook the deliberate tactic of working together in an attempt to form a common position which could be presented to the federal government.

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[1] Rubinoff, Federal-Provincial Relations, p. 18.

Many of the same factors added to the success of these negotiations.

The provinces showed an extreme willingness to compromise with each other to the extent to which they perceived a joint position to be more beneficial to them all than the alternative being offered by the federal government. Adding to this co-operative attitude was the belief that the only potential impact they might have on the federal government would be through a common front. For many of the same reasons, the Parti Québécois government which took office in Quebec after the November 15, 1976, election decided to continue the support of the province for the joint position.

This tactic proved successful to some extent. The presentation of a joint position in December changed both the perceptions and reality of the federal-provincial negotiations. Through this tactic, the provinces attempted to regain the initiative in the financial negotiations by posing a new alternative, backed up by the support of ten governments. It was also an attempt to restructure the discussions in terms of the issues which the provinces felt were most important; especially an attempt to cushion the revenue guarantee issue and the equalization of established programs payments in terms which were more beneficial to provincial concerns.

Although the federal government took an initial hardline approach to the provincial position, by the First Ministers' Conference on December 13, 1976, there were

indications that they were willing to offer some compromises but not to reopen serious bargaining with the provinces on the outstanding issues. Their offer was made on a "take it or leave it" basis. In general, the final settlement did not turn out to be all that the provinces had hoped for. However, it was only after the presentation of the provincial consensus at the Finance Ministers' meeting on December 6 that real federal concessions were offered. Thus the provincial co-operation can be seen to have forced the federal government to modify their positions several times. Their final offer proved satisfactory to most of the provinces although it did not meet the provincial consensus position. However, it did offer the provinces a better position than would have been possible through individual negotiations; a better solution than the provinces had thought possible in July.

> Thus many factors operate to help shape the kinds of tactics used in the negotiations. The range of possible actions is therefore limited. But there is nevertheless a great deal of room within which the participants can plan their own tactics and arguments. And, while it is hard to assess the effect of specific tactics on the final outcomes, it is clear that the kinds of tactics the participants do use are a crucial element in the final result. Unless exploited creatively, political resources are lifeless.[1]

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[1] Simeon, Federal-Provincial Diplomacy, p. 255.

CHAPTER VI

CONCLUSION

A. EVALUATION OF THE PROCESS

Perhaps the most important question to be asked in terms of evaluating the federal-provincial negotiating process is whether the process really has a perceptible impact on the types of policies that get made.

> Because of the way federal-provincial negotiations bring into the decision-making process certain interests and concerns which would not otherwise be involved, and because it gives provincial governments, as institutions, a major voice in national policy-making, the kinds of decisions made in the system and the interests brought to bear in policy-making are distinctive.[1]

In his study of federal-provincial relations Richard Simeon outlined three dimensions along which outcomes can be evaluated in terms of their impact on the decision-making process.[2] The first dimension is how well each government did in terms of its own goals; how much influence they had on the final settlement. The second dimension is how explicit and definitive the outcome was; whether the issue was resolved or simply postponed for future negotiations. The third dimension looks at the degree of accommodation: accommodation on the basis of the lowest common denominator; accommodation

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[1] Simeon, Federal-Provincial Diplomacy, p. 277.

[2] Ibid., p. 263.

in terms of splitting the difference and finding some mid-point between final bargaining positions; and accommodation on the basis of a creative solution in which the interests of all participants are improved.

The question regarding how well each government did in terms of its goals has been largely answered in a previous section. Although no government came close to their goals as stated in June, it is hard to say how much of those statements had simply been posturing in the initial stages of negotiation. In December the federal government expressed satisfaction with the settlement and had obvious reasons for being pleased with the conclusion of negotiations on a wide-ranging package. In the end, however, they had given away more than they had originally intended. On the other hand, all of the provinces were disappointed that the joint position was not accepted. In terms of their original goals as stated in June, some provinces did better than others, although all of them tended to gain something in the package. They managed to get some compensation for the loss of the revenue guarantee program while failing to reach their goals on the equalization of tax point provisions or the levelling provisions. In spite of these setbacks, it is probably correct to say that the provincial governments had more influence on the final settlement than they had on past occasions, in fact they had more influence than had seemed possible in June.

The second dimension was concerned with how definitive

the outcome was. The package agreement which appeared as the Fiscal Arrangements and Established Programs Financing Act did cover all of the issues which had been initiated at the beginning of the negotiations. In addition, the new arrangements must be seen as more than a mere extension of previous agreements. With the addition of the established programs financing aspects, the Act represented a new approach in the rapidly changing area of intergovernmental finance. The issue of shared-cost programs had been a highly contentious one on the federal-provincial scene for many years. This new approach removed many of the areas of disagreement. To this extent, the negotiations could be seen as being highly successful.

Most of the provisions of the Act had a five-year time frame. There was no specific time limit on the Established Programs Financing although the terms can be altered or terminated any time after April 1, 1979, on three years' notice by the federal government. Thus the program is guaranteed for at least five years. This five year time span was intended to give intergovernmental fiscal arrangements some stability and to a great extent there is this stability. All governments have a set idea of what the sharing of resources and the redistribution of resources will look like for a five-year period. The negotiations may be seen as being successful in reaching a definitive and relatively long-term conclusion.

However, more recent events have called into question just how definitive any decision or solution reached

in the highly volatile area of finance can be. In the September 1978 announcements of federal spending restraints, the federal government maintained that the unpredicted growth in levels of transfers to the provinces was one of the major elements forcing them to undertake a reassessment of their expenditure priorities. Cash payments under the Established Programs Financing Arrangements had grown much faster than predicted mainly due to the continued slow growth in the yields of the transferred personal income tax points.[1] The provinces rejected a proposal to tamper with the arrangements but it put the stability of the agreement in question. Fast increases in equalization payments were also designated as causing undue pressure on the federal treasury. In November 1978, the federal government announced an important amendment to the equalization formula, which meant that over a two-year period, provincial revenues from the sale of oil and gas leases would be dropped completely from the equalization formula.[2]

Evaluating the final settlement on the terms of accommodation is an extremely difficult problem. To a great extent it depends on one's perspective and on what one designates as the initial starting position. It is important to note that the financial negotiations were not remaking the system of fiscal federalism but rather making incremental

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[1] Appendix E shows the difference between the projected yields and the actual entitlements for 1979.

[2] Summary of this proposal in Canadian Confederation at the Crossroads, Fraser Institute (Vancouver, 1978).

although in some ways fundamental changes to fiscal arrangements which had developed primarily in the post-war period. Thus the impact of the bargaining, the extent of accommodation should be seen in terms of changes to a continually developing system. The perceptible degree of accommodation is also dependent on whether an examination is made in terms of the whole package or on individual items.

With respect to individual issues, previous sections have emphasized those settlements which were accepted by various participants only because of perceived gains in other areas. The revenue guarantee settlement could be designated as an issue where the accommodation was on the basis of the lowest common denominator. The federal government was hesitant about giving up two tax points on this issue. In turn, their compromise was seen by all of the provinces as being inadequate. On the outstanding issues of the established programs financing the accommodation could be termed as "splitting-the-difference" to some degree. The federal government argued that the cash value of their final proposal would equal the provincial proposal with more control over the growth potential. The levelling and transition payments were offered as compensation for not equalizing payments to the top province.

In terms of the total package, one could argue that the final settlement should be seen in the light of a "creative solution". The process of negotiations during

1976 brought to a conclusion issues which had been under study and discussion throughout most of the seventies. The decision on new financing arrangements on the major shared-cost programs brought to an end a period of massive use of the federal spending power in areas of provincial jurisdiction. It was a major shift in direction in the Canadian federal system; a shift which was made possible by the acceptance of a package which managed to dilute extreme gains and losses for each of the participants.

The process of interprovincial bargaining had a profound impact on the final settlement of the financial arrangements. The process provided the opportunity for the provinces to put direct pressure on the federal government in terms of their goals and priorities. It is difficult to imagine that the final solution would have been the same without the nine months of intensive negotiations.

B. FUTURE PROSPECTS

Throughout the paper emphasis has been put on the intergovernmental policy-making process focusing on the financial negotiations of 1976. Agreement resulting in the Fiscal Arrangements and Established Programs Financing Act, 1977-82, emerged from a high degree of intergovernmental activity, of bargaining and negotiation. The nature of the final agreement resulted from a unique combination of factors which have been highlighted in previous chapters. Emphasis

has been put on the issues, objectives and conflicts, the institutions, the political resources, strategies and tactics which in varying degrees interacted and influenced the nature of the final outcome.

The 1977 Act represented a fundamental shift in the bases of financial arrangements in Canada, as the federal government moved out of its active role in three major shared-cost programs and transferred to the provinces a considerable proportion of tax room. There is no doubt that the factors mentioned above and the overall scheme of intergovernmental negotiations conditioned the process of decision-making which resulted in these new arrangements. In general, the new financial scheme may be seen as a policy shaped largely by the nature of intergovernmental negotiations rather than by the parameters of the legislative process. The agreement which was reached by the First Ministers in December 1976, emerged from ten months of intensive negotiations during which positions were established, proposals and counterproposals were made, bargaining was undertaken, and a compromise was reached. The process of negotiation had a considerable impact on this final compromise.

Of special significance from the point of view of this paper was the fact that the process provided the opportunity for the provinces to put direct pressure on the federal government in terms of their goals and priorities. For the first time in federal-provincial financial discussions,

a high degree of interprovincial co-operation led to the development of a provincial consensus position. Various factors led to the development of this consensus during the course of the negotiations. The nature of the issues, the negotiating strategy of the federal government, the impact of external factors, the temper of federal-provincial relations in general, the availability of forums and expertise have all been pinpointed as aiding the development of such a position.

In previous financial discussions, cleavages had tended to emerge between rich and poor provinces with the federal government often taking the role of mediator. However, in 1976, the division became one of the federal government against the combined forces of the provinces. Various factors were present which initiated the process of interprovincial co-operation; once the process was undertaken other factors led to a successful conclusion. The decision to use the resource of solidarity to its full potential had a considerable impact on the negotiations and on the final outcome.

In the end, the provinces did not get what they had requested. Although the provincial consensus position was not accepted by the federal government it did force them to offer considerable concessions in the final stages of the negotiations. These concessions led to the development of a compromise on a wide range of related financial issues and thus to a new direction in federal-provincial financial relations. In terms of overall political resources, it became

clear during the 1976 negotiations that Ottawa still maintained the upper hand in financial relations. The federal government entered the negotiations with a comprehensive program aimed at restraint. In the end this goal prevailed over strong pressures to change. However, the development of the interprovincial consensus proved to be an important tool in the negotiations; a tool which greatly increased the provincial bargaining position.

Interprovincial co-operation is a potentially powerful aspect of federal-provincial negotiations. This paper has shown how a combination of factors in 1976 provided the impetus and opportunity for the development of such co-operation leading to a joint proposal. Evaluation of the probability of such co-operation becoming a more permanent feature of federal-provincial negotiation remains difficult.

Of primary importance for such an evaluation would be the re-emergence of a situation where the major cleavage was between the federal government and all of the provinces rather than on a provincial-provincial scale. In evaluating the potential for continued interprovincial co-operation it is necessary to keep in mind that there have been some major changes in the Canadian federal scene since 1976. As the system evolves and changes, the nature of the issues under negotiation, as well as the relative strength of the participants, also change. During this period there has been the election of a new government in Quebec with a

fundamentally different view of the federal system, which has lessened the possibility of provincial consensus being reached on many matters. The continuation of high rates of inflation and unemployment and poor economic performance has necessitated the search for new economic direction and highlighted the continued need for government restraint. These factors, in 1978, led to the development of First Ministers' Conferences on the Economy, based on the recognition of the need for co-operation and coordination rather than confrontation in the economic sphere. A new federal government has been elected representing the same political party as the majority of provincial governments. The existence of a new federal government starting with a clean slate and new ideas will have an impact on the federal-provincial scene. Finally, the energy problem has resurfaced with the inherent conflict between producers and consumers plus conflicts over the redistribution of resources in the country. In general, these developments tend to put the federal-provincial scene in the position where the major problems requiring federal-provincial negotiation in 1979 represent differences between provinces and regions rather than between the federal government and the provinces. If this trend continues, there seems to be less potential for the development of interprovincial agreements as a permanent feature in federal-provincial negotiations; less possibility of the re-emergence of the combination of factors which seem necessary for the provinces to make the decision to come together.

However, the example of interprovincial co-operation developed in 1976 still exists. There is no doubt that the process of previous negotiations has a potential impact for future undertakings. Both sides are now aware of the fact that an interprovincial consensus on an issue of fundamental importance is possible. In future they may modify their positions and strategies during negotiations in recognition of this fact. In addition, provincial governments are more aware that there is a great deal to be gained from co-operation and compromise both on a regional and national scale. Institutions accommodating interprovincial interaction continue to grow and develop. Interprovincial negotiations remain a potentially important site for bargaining; the potential for consensus formation remains. These facts will no doubt have considerable impact on the process of federal-provincial negotiations in the future.

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APPENDIX A

CHRONOLOGICAL DEVELOPMENT OF FEDERAL-PROVINCIAL FINANCIAL ARRANGEMENTS IN CANADA

APPENDIX A

CHRONOLOGICAL DEVELOPMENT OF FEDERAL-PROVINCIAL FINANCIAL ARRANGEMENTS IN CANADA[1]

1941 — WARTIME TAX AGREEMENTS

In 1941, the federal government and the provinces signed agreements which represented a pragmatic solution following upon the failure to implement the recommendations of the Rowell-Sirois Commission. To ensure the potentially large requirements of the federal government in financing the Second World War, the provinces surrendered for the period of the war, their right to impose personal income taxes and direct taxes on corporations. In return, the federal government made rental payments, under several options, taking account of the special financial needs of the provinces.

1947 - 1952 — TAX RENTAL AGREEMENTS

At a Reconstruction Conference in 1945 - 46, the federal government once again presented wide-ranging proposals for realigning the structure of the financial position of the governments in Canada. The federal proposals were based on recognition of the usefulness of fiscal policy as a key instrument of economic management plus recognition of the benefits of a standardized taxation system. When these proposals (Green Book Proposals) were rejected by some provinces, a new set of tax rental agreements were negotiated in 1947. Once again rental payments were made to those provinces which signed agreements agreeing to vacate personal and corporate tax fields. Several options were available for payments based on different mixtures of per capita payments and a measure of fiscal capacity. All of the provinces, with the exception of Ontario and Quebec entered these agreements. However, during this period, neither of these provinces imposed their own personal income taxes.

1952 - 1957 — TAX RENTAL AGREEMENTS

These agreements were renegotiated in 1952. Ontario entered the agreements at this time; Quebec's position remained the same but in 1954 Quebec imposed her own personal income tax.

1957 - 1962 FEDERAL-PROVINCIAL TAX SHARING ARRANGEMENT ACT

In 1957, there was a major redesign of financial arrangements. For the first time there was a clear distinction made between tax rental payments to provinces coordinating their tax bases and collection systems with the federal government and federal equalization payments to less wealthy provinces. Under the tax collection scheme, the federal government paid directly to each agreeing province a portion of the three standard taxes - 10 per cent of federal personal income tax, 9 per cent of corporate taxable income and 50 per cent of federal estate taxes on its residents. For those provinces which did not agree, the federal government provided for abatements corresponding to the same amounts by reducing the schedule of federal tax rates imposed on their residents by appropriate amounts. Eight provinces signed agreements for the 10-9-50 formula. Ontario signed a partial agreement but continued to collect its own corporation taxes. Quebec continued to impose and collect all three standard taxes.

Equalization payments were introduced and were made on an unconditional basis to bring each province a per capita yield from its share of tax rental revenues up to the weighted average per capita yield of the two highest provinces (Ontario and British Columbia).

1958 AMENDMENTS

In 1958, after considerable pressure from the provinces, the federal government made two changes for the duration of the agreements. The provincial share of the personal income tax field was raised to 13 per cent and an annual adjustment grant of $25 million was made to the Atlantic provinces.

1962 - 1967 FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS ACT

In 1962, the federal government reduced its share of the personal income tax collections even further. The rate for personal income tax was set at 16 per cent in 1962 and further increases of one percentage point a year were scheduled for the next four years, bringing the total planned abatement to 20 per cent in 1966. The other tax fields remained the same.

Under these arrangements, the federal government continued to abate to the provinces a standard percentage of a national federal basic personal income tax. The federal government also collected personal income taxes for the 9 provinces which had collection agreements at rates similarly specified as a percentage of the national federal basic personal income tax. However, for the first time provinces were allowed to set the levels of taxes to be applied to their own residents. Only two of the provinces took quick advantage of their ability to change their tax rates while remaining with the federal tax collection system. Over time, most of the other provinces gradually varied their rates.

On the equalization formula, the basis of payments was changed from the average of the two highest provinces to the national average yield from standard taxes. Natural resource revenues were introduced into the equalization formula making the base four revenue sources.

The Act also introduced the concept of stabilization of the yield from the standard taxes plus equalization over time.

1963 AMENDMENTS

The new Liberal government reviewed the recently signed agreements and introduced various amendments. An increase was made in the escalation of federal personal income tax abatement by 2 per cent to 21 per cent in 1965 and to 24 per cent in 1966. The provincial share of federal estate tax was raised to 75 per cent in 1964.

1965 ESTABLISHED PROGRAMS (INTERIM ARRANGEMENTS) ACT

Under this Act, the federal government offered the provinces the feasibility of opting-out of certain major shared-cost programs. The arrangements allowed any province to assume the administrative and financial responsibility for certain joint programs in return for federal compensation which consists of a federal income tax abatement and an operating cost adjustment payment. (16 points for Hospital Insurance,

5 points for special welfare programs and 3 points for the youth allowance program). Quebec was the only province which entered these agreements.

1967 - 1972 FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS ACT

During this period, the federal government was undertaking a major evaluation of the entire tax system. In many ways these arrangements represented an extension of the previous system until the federal government finalized its course of action with respect to tax reform. In 1967 an additional four percentage points of personal income tax and one point of corporation income was made available to the provinces, but this was in relation to shared-cost spending in the field of post-secondary education. The new arrangements for post-secondary education provided the provinces with these abatements plus a cash adjustment payment which equaled the greater of $15 per capita or 50 per cent of operating costs. Under the equalization program, the revenue base was expanded from four revenue sources to sixteen. These continued to be equalized to the national average. The stabilization provisions continued.

1972 - 1977 FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS ACT

I. Equalization - The previous equalization system was extended although the base was expanded to nineteen provincial revenue sources.

II. Stabilization - Although the agreements since 1941 have provided some assurance of a revenue floor to the provinces, the 1972 Act made provisions for payments to any province whose total revenue from all sources fell below the level reached in the previous year.

III. Tax Collection Agreements - The major change in this Act was the basis upon which provincial personal income tax was calculated. Provincial income taxes were expressed as a percentage of actual federal basic personal income tax rather than calculated on the basis of a national federal basic tax from which abatements were subtracted. This was largely introduced to overcome the effects of the major federal tax reforms instituted in 1972.

The old standard federal abatement of 28 percentage points of federal basic personal income tax became a provincial tax rate of 30.5 per cent of federal tax payable. The desires for provincial flexibility of tax systems resulted in changes to the tax collection agreements which allowed provinces to make a variety of changes to the structure of the personal income taxes they impose.

IV. <u>Revenue Guarantee</u> - This program was introduced in 1972 to overcome the major changes in the federal tax structure: to encourage the provinces to implement similar changes and to maintain a continuing national uniformity of the basic income tax system. In general, the guarantee was that no province would receive smaller returns under the new tax structure than it would have under the previous one. The original offer was made for three years (later extended to five). In addition, the guarantee was later expanded to compensate provinces for other federal changes to the income tax with the major exception of indexing in 1974.

V. <u>Transfer Payments With Respect to Tax on 1971 Undistributed Income on Hand</u> - This tax was paid on the basis of the distribution of funds to shareholders from a fixed pool of capital declared by corporations at the end of 1971, divided among the provinces.

VI. <u>Post-Secondary Education Adjustment Payments</u> - The federal contribution to each province in respect to post-secondary education was a tax abatement equal to 4.357 points of personal income tax and 1 point of corporate income tax plus a cash adjustment payment to bring the total transfer to 50 per cent of eligible expenditures or the amount of the per capita grant. In 1972, a 15 per cent ceiling on the growth of aggregate of the federal contribution to all provinces was imposed.

1977 - 1982 <u>FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS AND ESTABLISHED PROGRAMS FINANCING ACT</u>[2]

The new Act, incorporated many aspects of previous agreements, while at the same time introducing some major changes to Canadian fiscal arrangements.

I. Fiscal Equalization Payments
II. Fiscal Stabilization Payments

III. Tax Collection Agreements
IV. Provincial Personal Income Tax Revenue Guarantee Payments
V. Transfer Payments with Respect to Tax on 1971 Undistributed Income on Hand
VI. Established Program Financing
VII. Alternative Payments for Standing Programs
VIII. Provincial Taxes and Fees
IX. General - Regulations - Recovery
X. Consequential and Related Amendments and Coming Into Force.

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[1] Details of the development of fiscal arrangements in Canada can be found in M. A. Moore, J. H. Perry and D. I. Beach, The Financing of Canadian Federation, the First Hundred Years, Canadian Tax Payer No. 43 (Toronto, Canadian Tax Foundation, 1966), and Bank of Nova Scotia, "The New Federal-Provincial Fiscal Arrangements", Monthly Review, March - April 1977.

[2] Details on the 1977 Act are found in Appendix B.

APPENDIX B

BACKGROUND INFORMATION TO FISCAL ARRANGEMENTS IN CANADA

APPENDIX B

BACKGROUND INFORMATION TO FISCAL ARRANGEMENTS IN CANADA

1. Major Shared-Cost Programs

I. Post-Secondary Education

Since 1967, the federal government has paid half of the operating costs of post-secondary education in Canada. The 1972 Fiscal Arrangements Act laid out two options for the federal-provincial financing of post-secondary education: 50 per cent cost sharing of eligible expenditures or an escalated $15 per capita grant. Since 1972, the total increase in the federal share in any given year has been limited to 15 per cent of the preceding year. In 1976, the major part of the federal share was paid in the form of a federal tax transfer of 4.357 points of personal income tax. The balance was paid in cash adjustment payments. Expenditure ceilings in effect penalized those provinces which were spending relatively less and wished to catch up.

II. Medicare

Under the terms of the Medical Care Act, passed in 1968, the federal government paid half of the national per capita cost of medical services, multiplied by the number of insured persons in the province. The June 23, 1975 federal budget announced the government's intention to impose temporary ceilings on the federal contribution to medicare. Legislation passed by Parliament provided that the per capita growth of medicare contributions to provinces would be limited to 13 per cent in 1976-77, 10.5 per cent in 1977-78, and in consequent years by a percentage established annually by the Governor-in-Council.

III. Hospital Insurance

Under the Hospital Insurance and Diagnostic Services Act, passed in 1958, the federal government paid the provinces approximately 50 per cent of most in-patient hospital services and a number of out-patient services. The June 23, 1975 federal budget gave notice of the federal government's intention to terminate the present hospital insurance agreements in 1980. During the early 1970's the area of health which had the highest rate of rising costs was the acute care element of hospitals. The federal government maintained that the provinces must take drastic steps to cut costs in acute care hospitals. In 1975, the federal government argued that lower-cost alternatives would have to be introduced and agreed to share in

lower-cost alternative programs. Negotiations on this issue were proceeding in 1976.

IV. Contracting-Out

Under the Established Programs (Interim Arrangements) Act, 1965, Quebec received its share of the federal payments toward certain shared-cost programs in the form of personal income tax points and the balance in the form of adjustment payments. In the mid-1960's, the federal government proposed arrangements to allow any province to assume administrative and financial responsibility for certain joint programs in return for an abatement of personal income tax points. The offer was taken up only by Quebec. In hospital insurance 16 income tax points were abated, in the special welfare program, including the Canada Assistance Plan, 5 points were abated and 3 points abated for youth allowances, for a total of 24 points. In 1973, the youth allowance program came to an end and the value of 3 points was subtracted from other payments.

2. Fiscal Arrangements Act - 1977 - 1982

I. Equalization Payments

The equalization program was initially introduced in 1967 and renewed in 1972. The federal government makes annual payments from general revenues to provinces that are below the national average per capita in their capacity to raise revenues from their taxpayers. The purpose of the program is to make it possible for such provinces to provide reasonable standards of public services without having to resort to excessive levels of taxation.

Equalization payments are calculated on a "representative tax system". A revenue base for each revenue source is used to determine each province's fiscal capacity for each revenue source. The difference between the province's share of the total revenue base for all provinces and the province's share of the total population, which is called the fiscal capacity, deficiency or excess, is then multiplied by the total revenue to be equalized to obtain the equalization entitlement for the revenue source. The equalization entitlements, both positive and negative, for each revenue source are summed to yield the total equalization entitlement for each province. If a province's net entitlement is negative, it receives no equalization payments.

In the November 1974 federal budget, a major amendment was introduced to the equalization formula. In order to overcome the disruptive effects of the rapid escalation in oil and

gas prices, the amendment made a distinction in oil and natural gas revenues between "basic" revenues (actual 1973-74 revenues adjusted for volume changes) and "additional" revenues. The basic revenues were equalized in full, the additional revenues were equalized to the extent of one-third. The treatment of natural resource revenues remained a major source of contention during the 1976 negotiations.

A C.C.O. Sub-Committee undertook extensive study on new approaches to the calculation of equalization payments in 1975. They examined macro approaches as opposed to the representative provincial tax system approach to measuring fiscal capacity. A macro approach would utilize an aggregate measure of economic activity (i.e. aggregate personal income) which would reflect the overall fiscal capacity of a province. In the end, agreement was given to continuing the representative tax system for the medium-term.

The new Act provides for a 5 year extension in the equalization system. In addition a number of changes were introduced. The previous twenty-three revenue sources were expanded to 29. A number of taxes and revenue sources such as tobacco taxes, payroll taxes and lottery revenues are now calculated separately instead of being lumped with other taxes or revenues. With respect to natural resource revenues, the new Act provides that one-half of the revenue from non-renewable mineral resources are to be equalized. It further provides that equalization payable with respect to all natural resource revenues may not exceed one-third of the total equalization payable.

II. Provincial Revenue Stabilization

Since 1967, the federal government has provided protection to each province in the event of a year-over-year loss in revenue resulting from a downturn in economic activity. No payment has been necessary. Revenues subject to stabilization included revenues to be equalized, equalization itself and revenue guarantee payments. Provincial revenues have tended to increase each year due to inflation and real economic growth. In addition, the equalization program has had an automatic stabilizing effect. The program has provided potential protection and has tended to aid provincial borrowing, especially in foreign markets, which is a great benefit to the smaller, less wealthy provinces. The revenue stabilization program was extended for a further five years. To avoid excessive payments due to changes in natural resource revenues, under the new arrangements only stabilization is payable when natural resource revenues drop by at least 50 per cent and the guarantee is limited to the amount in excess of 50 per cent. The guarantee does not cover decreases in revenue resulting from provincial tax rate changes.

III. Tax Collection Agreements

Since 1962, personal and corporate income taxes in most provinces have been collected by the federal government and payments made to the provinces in respect of the taxes collected. The tax collection agreements cover provincial personal income taxation in all provinces except Quebec, and provincial corporate income taxation in all but Ontario and Quebec. Under the agreements, the federal government collects taxes provided that provinces express their personal tax rate as a percentage of the federal basic tax on individuals, and their corporate income tax rate as a percentage of the taxable income of corporations as determined under the federal income tax law. This arrangement improves the harmony of the national tax system and avoids duplication of administrative machinery. The tax collection system allows agreeing provinces to set their own tax rates. Since 1972, certain provincial tax programmes have been administered by the federal government on a direct charge basis.

The new Act provides for an unlimited extention of the federal-provincial tax collection agreements. These agreements provide that the federal government will collect and remit to the provinces, provincial personal and corporate income taxes levied under model Acts which parallel the federal Acts.

IV. Provincial Personal Income Tax Revenue Guarantee Payments

The original revenue guarantee program was initiated in 1972. The 1972 major tax reform created a certain amount of uncertainty over the revenue yield of the new tax system. Tax reform had necessitated adjustments to the standard provincial tax rate. The revenue guarantee was introduced to protect provinces against financial losses if the projected revenues from the new system had been underestimated. The program ensured that provincial revenue from personal and corporate income taxes would not be less than under the old tax system given similar tax efforts by the province. Originally it was thought the adjustments would be relatively small.

During the five years of the program the payments grew by vast amounts. The major reasons for this were that all tax changes subsequent to 1972, with the exception of the indexing provisions for the personal income tax have been covered by the guarantee. In addition, the federal government claimed the method of calculation used for the hypothetical yield of the pre-1972 system exaggerated the yields from these taxes. This method was based on statistical equations using

personal and farm income. In 1976, they announced that they were replacing this with a side-by-side comparison of a sample of actual tax returns for the 1974 year. The federal government argued that the new system would provide more accurate estimates. The provinces maintained they would suffer substantial reductions in payments, and furthermore that such reductions would be retroactive to the announcement; the calculations would affect completed tax years.

During the 1976 negotiations, the basic issues with the revenue guarantee focused on the magnitude of the adjustment to provincial tax rates which would be needed to restore their revenue position, and the expiration of the program which the federal government had announced. The provinces were concerned not only with the lost dollars in the 1976-77 year (which were substantial) but also with restoring their position to post 1972 conditions. They argued that the end of the guarantee program would necessitate significant increases in provincial tax rates.

The new Act provides for a restricted personal income tax revenue guarantee for five years. (The compromise for provincial losses shows up as a part of the EPF settlement.) The federal government will provide a guarantee for all provinces, assuming the provinces do not immediately revise their rates. The guarantee takes effect for the tax year in which the federal government introduces a change in personal income tax that reduces provincial taxes by an amount in excess of 1 per cent of the federal basic tax. The guarantee payment is the amount of tax shortfall in excess of 1 per cent of basic tax in that taxation year. The provinces must introduce measures to restore their tax revenues in following years or absorb the loss themselves.

V. Transfer Payments With Respect to 1971 Undistributed Income on Hand

The Act provides for a continuation of the system of payments to provinces of 20 per cent of the tax paid under Part IX of the Income Tax Act. This section imposes a tax on special distributions by corporations of surplus income built up prior to January 1, 1972 and paid out after that date.

VI. Established Programs Financing

Under the new Act, previous arrangements for the financing of medicare, hospital insurance and post-secondary education are replaced by compensation consisting of cash payments and 13.5 percentage points of personal income tax and 1 percentage point of corporate taxable income (the 13.5 points of p.i.t. include the 1 point and cash payment and associated equalization paid in compensation for the termination of the revenue

guarantee. The mechanics of the tax transfer and the cash components are discussed later).

This financial assistance was given in exchange for commitments from the provinces to satisfy certain broad program conditions. The previous arrangements for these three major programs (1976-77 total over $5 Billion) involved very close control by the federal government and cumbersome and unsatisfactory auditing procedures. The provinces were committed to spending patterns which did not necessarily reflect their priorities. The federal government was committee to massive transfers of funds over which it had very little control.

VII. Alternative Payments for Standing Programs

This section deals with the equivalencies for Quebec's opting-out of hospital insurance, and other major programs. In addition, provisions are made for an indefinite extension of the opting-out arrangements. Adjustments are made so that the net compensation is the same as that which would have been provided had the provinces not opted out.

VIII. Provincial Taxes and Fees

The section deals with reciprocal taxation agreements between the federal and provincial governments. (All provinces east of Manitoba have agreed to these arrangements). Under these agreements, both levels of government agree to pay each other's consumption taxes.

IX. General-Regulations-Recovery

These sections provide for the recovery of overpayments to the provinces stemming from the time lag between the effective date for the tax transfer and the termination date of the previous shared cost arrangements.

X. Consequential and Related Amendments and Coming Into Force

The final section deals with the details of implementation and introduces consequential amendments to thirteen federal Acts.

3. Established Programs Financing

Calculation of the established programs transfer to the provinces is extremely complex. The financing is composed of two roughly equal parts; a transfer to the provinces of income tax room and cash payments.

The tax room consists of 13.5 personal income tax points (including the one point regarded as compensation for the revenue guarantee program) plus one corporate income tax point. This transfer includes the 4.357 p.i.t. and 1 c.i.t. earlier transferred to the provinces in respect of the previous post-secondary education cost-sharing arrangement. The tax points are equalized to the national average yield under the provincial revenue equalization program.

The cash payments made to the provinces have three main parts:

- An amount reflecting 50 per cent of the 1975-76 federal contributions to post-secondary education, medicare and hospital insurance;

- An amount equal to the cash value of one personal income tax point and associated equalization in respect of the revenue guarantee settlement;

- $20 per capita as the federal contribution to extended health care services

The transfers are calculated in the following manner:

I. Base Year

The base year used in calculations is the fiscal year 1975-76.

II. Escalator

The cash contribution is escalated annually by a three year moving average of the growth of Gross National Expenditure per capita.

III. Levelling Payments

Prior to 1977, the aggregate federal contributions for the three major programs (post-secondary education, medicare and hospital insurance) varied widely among the provinces on a per capita basis. The new arrangements under EPF financing aimed at equal per capita grants. To achieve this goal, per capita differences were to be eliminated

through levelling payments. Provinces which had received above the national average federal contributions (per capita) would be brought down to the national average over five years. Provinces below the national average would be brought up over three years.

IV. Transitional Payments

The yield of a tax point and the associated equalization differs widely among provinces.[1] To overcome this discrepancy, the EPF arrangements provided for transitional payments. These payments are made to ensure that each province receive as much from the cash grant and the tax room as they would have if the entire financing had been in cash. Ontario, the province with the richest tax base was the only province whose initial payment was 50 per cent tax points and 50 per cent cash. They received no transitional payment. Initially it was expected that the tax portion would grow more quickly than the cash portion and that the transitional payments would eventually disappear. However, due to the relatively poor growth in the tax transfer portion, the transitional payments have grown considerably since 1977.

V. Mechanisms of a Tax Transfer

A transfer of tax points involves a reduction in federal income tax rates matched by an offsetting increase in provincial income tax rates. Under the Tax Collection Agreements, the provinces (except Quebec) levy their personal income tax as a percentage of the federal basic tax. This base was known as 100 units or "points" of tax. The Established Programs Financing Arrangements transferred 13.5 points of personal income tax to the provinces. Since this included the 4.357 points previously transferred in respect of post-secondary education payments, the net transfer was 9.143 points.

1. Reduce federal personal income tax rates by 9.143%

$$\begin{array}{lr} \text{present base} & 100 \\ & -\ 9.143 \\ \hline & 90.857 \end{array}$$

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[1] Department of Finance, Federal Income Tax and Equalization Estimates, December 1975. The yield of 1 point of personal income tax was estimated as follows: Newfoundland ($2.0M), P.E.I. ($0.4M), N.S. ($3.7M), N.B. ($2.7M), Que. ($36.5M), Ont. ($63.8M), Man. ($5.6M), Sask. ($5.0M), Alta. ($11.8M), B.C. ($19.2M).

2. Provincial rate has to be raised to compensate for the base reduction.

restoration factor $\frac{100.000}{90.857} = 1.10063$

converted rate old rate x 1.10063 = converted rate

3. The converted provincial rate must be increased to take up the 9.143 per cent of tax room vacated by the federal government.

9.143 x 1.10063 = 10.063%

converted rate + 10.063 = new provincial rate

CONVERTED PROVINCIAL INCOME TAX RATES[1]

	1976	Equivalent 1977	Actual 1977
Newfoundland	42.0	56.289	n.a.
Prince Edward Island	36.0	49.686	50.0
Nova Scotia	38.5	52.437	52.5
New Brunswick	41.5	55.739	55.5
Quebec	n.a.	n.a.	n.a.
Ontario	30.5	43.632	44.0
Manitoba	42.5	56.840	n.a.
Saskatchewan	40.0	54.088	58.5
Alberta	26.0	38.680	38.5
British Columbia	32.5	45.834	46.0

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[1] Ontario, Budget Background Paper, 1977, p. 13.

APPENDIX C

FORMAL INTERGOVERNMENTAL MEETINGS
AND CONFERENCES 1976 - RELATING
TO NEW FISCAL ARRANGEMENTS AND
ESTABLISHED PROGRAMS FINANCING ACT

Table VI

FORMAL INTERGOVERNMENTAL MEETINGS AND CONFERENCES
1976 - RELATING TO NEW FISCAL ARRANGEMENTS ACT
AND ESTABLISHED PROGRAMS FINANCING

DATE AND LOCATION OF CONFERENCE	NAME OF COMMITTEE	TYPE OF MEETING (Federal-Provincial or Interprovincial)	PARTICIPATION (Bilateral Regional Multilateral)	LEVEL OF REPRESENTATION (First Minister; Ministerial Deputy Ministerial or Officials)
March 16, 1976 Ottawa	C.C.O. Sub-Committee on Equalization	Federal-provincial	Multilateral	Officials
March 17-18, 1976 Ottawa	Continuing Committee of Officials	Federal-provincial	Multilateral	Deputy Ministers
March 31, 1976 Ottawa	Continuing Committee of Officials	Federal-provincial	Multilateral	Deputy Ministers
April 1-2, 1976 Ottawa	Ministers of Finance and Provincial Treasurers	Federal-provincial	Multilateral	Ministers
April 28-29, 1976 Medicine Hat	Western Premiers' Conference	Interprovincial	Regional	First Ministers
May 18, 1976 Ottawa	C.C.O. Sub-Committee on Equalization	Federal-provincial	Multilateral	Officials

DATE AND LOCATION OF CONFERENCE	NAME OF COMMITTEE	TYPE OF MEETING (Federal-Provincial or Interprovincial)	PARTICIPATION (Bilateral Regional Multilateral)	LEVEL OF REPRESENTATION (First Minister; Ministerial Deputy Ministerial or Officials)
June 8, 1976 Ottawa	Officials on New Federal Paper-Established Programs Financing	Federal-provincial	Multilateral	Deputy Ministers
June 13, 1976 Ottawa	First Ministers Meeting	Interprovincial	Multilateral	First Ministers (Informal)
June 14-15, 1976 Ottawa	First Ministers' Conference	Federal-provincial	Multilateral	First Ministers
June 16, 1976 Ottawa	C.C.O. Sub-Committee on Equalization	Federal-provincial	Multilateral	Officials
June 22-23, 1976 Ottawa	Continuing Committee of Officials	Federal-provincial	Multilateral (Due to air strike some provinces participated through a conference call)	Deputy Ministers
July 6-7, 1976 Ottawa	Ministers of Finance and Provincial Treasurers	Federal-provincial	Multilateral	Ministers
July 27, 1976 Ottawa	Sub-Committee on Equalization	Federal-provincial	Multilateral	Officials

DATE AND LOCATION OF CONFERENCE	NAME OF COMMITTEE	TYPE OF MEETING (Federal-Provincial or Interprovincial)	PARTICIPATION (Bilateral Regional Multilateral)	LEVEL OF REPRESENTATION (First Minister; Ministerial Deputy Ministerial or Officials)
August 17, 1976 Edmonton	Provincial Finance Officials	Interprovincial	Multilateral	Deputy Ministers
August 17, 1976 Edmonton	Provincial Ministers of Finance and Provincial Treasurers	Interprovincial	Multilateral	Ministers
August 18-20, 1976 Edmonton	17th Annual Premiers' Conference	Interprovincial	Multilateral	First Ministers
Sept. 15, 1976 Toronto	Interprovincial Finance Ministers Meeting	Interprovincial	Multilateral	Ministers
Sept. 29, 1976 Edmonton	Officials	Federal-provincial	Bilateral	Officials
Oct. 20-21, 1976 Toronto	Interprovincial Finance Ministers' Meeting	Federal-provincial	Multilateral	Ministers
Nov. 17, 1976 Toronto	Interprovincial Finance Officials	Interprovincial	Multilateral	Officials
Dec. 5, 1976 Ottawa	Interprovincial Finance Ministers' Meeting	Interprovincial	Multilateral	Ministers

DATE AND LOCATION OF CONFERENCE	NAME OF COMMITTEE	TYPE OF MEETING (Federal-Provincial or Interprovincial)	PARTICIPATION (Bilateral Regional Multilateral)	LEVEL OF REPRESENTATION (First Minister; Ministerial Deputy Ministerial or Officials)
Dec. 6-7, 1976 Ottawa	Ministers of Finance and Provincial Treasurers	Federal-provincial	Multilateral	Ministers
Dec. 13-14, 1976 Ottawa	First Ministers' Meeting	Federal-provincial	Multilateral	First Ministers
Feb. 1-2, 1977	Ministers of Finance and Provincial Treasurers	Federal-provincial	Multilateral	Ministers

* During the process of negotiation a great deal of activity took place through more informal channels (letters, telephone calls, bilateral meeting) especially at the officials level. No attempt has been made to document these mechanisms for interaction.

APPENDIX D

GROWTH OF FEDERAL-PROVINCIAL
AND INTERPROVINCIAL MEETINGS
AND CONFERENCES, 1973 - 1977

APPENDIX D

Growth of Federal-Provincial and Interprovincial Meetings Conferences, 1974 - 1977[1]

Table VII

Frequency of Federal-Provincial Meeting and Conferences According to Category, Alberta Participation, 1973 - 1977

	1973	1974	1975	1976	1977
Bilateral	25	33	79	67	84
Regional	20	8	18	19	20
Multilateral	73	141	240	178	150
TOTAL	118	182	337	264	254

Table VIII

Frequency of Interprovincial Meetings and Conferences According to Category, Alberta Participation, 1974 - 1977

	1974	1975	1976	1977
Bilateral	3	6	11	17
Regional	15	10	15	22
Multilateral	36	44	50	48
TOTAL	54	60	76	87

[1] Figures refer to intergovernmental activity for the province of Alberta only, but do show a comparative growth and areas of greatest interaction. Information taken from, A Statistical Profile of Conference Activity, Alberta Participation, 1973 - 1977, an internal document prepared by B. J. Anderson for the Alberta Department of Federal and Intergovernmental Affairs, 1978.

Table IX

Frequency of Federal-Provincial Meetings and Conferences According to Level of Representation, Alberta Participation, 1973 - 1977

	1973[1]	1974	1975	1976	1977
First Ministerial		4	4	3	1
Ministerial		27	76	49	47
Deputy Ministerial		40	73	86	96
Officials		111	184	126	110
TOTAL	118	182	387	264	254

[1] No Comparable 1973 Figures

Table X

Frequency of Interprovincial Meetings and Conferences According to Level of Representation, Alberta Participation, 1974 - 1977

	1974	1975	1976	1977
First Ministerial	4	1	7	3
Ministerial	25	22	27	35
Deputy Ministerial	6	9	18	22
Officials	19	28	24	27
TOTAL	54	60	76	87

Table XI

First Ministerial Federal-Provincial Meetings and Conferences According to Area of Government Activity, Alberta Participation, 1974 - 1977

	1974	1975	1976	1977
General Government	---	---	1	1
Finances	1	1	2	---
Energy	3	3	---	---
TOTAL	4	4	3	1

Table XII

First Ministerial Interprovincial Meetings and Conferences According to Area of Government Activity, Alberta Participation, 1974 - 1977

	1974	1975	1976	1977
General Government	3	1	7[1]	2
Finances	---	---	---	1
Energy	1	---	---	---
TOTAL	4	1	7	3

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[1] These meetings consisted of the Western Premiers' Conference, 2 Annual Premiers' Conferences, and four other informal meetings regarding both constitutional discussions and financial arrangements.

Table XIII

Ministerial Federal-Provincial Meetings and Conferences According to Area of Government Activity, Alberta Participation, 1974 - 1977

	1974	1975	1976	1977
General Government	---	1	1	3
Finances	2	3	4	5
Agriculture	3	7	6	2
Transportation	4	5	4	4
Education	---	1	---	2
Energy and Resources	2	6	3	4
Environment	4	3	6	3
Manpower - Labour	1	6	5	4
Statistics	---	2	1	---
Welfare	2	4	2	1
Health	1	2	1	2
Industry and Trade	---	3	1	6
Urban Affairs	1	7	5	2
Justice and Laws	---	13	5	2
Consumer Affairs	---	2	2	1
Communications	---	3	---	4
Native Affairs	3	5	1	1
Miscellaneous	4	3	2	1
TOTAL	27	76	49	47

Table XIV

Ministerial Interprovincial Meetings and Conferences According to Area of Government Activity, Alberta Participation, 1974-1977

	1974	1975	1976	1977
General Government	---	---	4	2
Finances	1	---	4	1
Agriculture	---	---	1	---
Transportation	2	5	2	1
Education	5	6	7	7
Energy and Resources	1	3	---	6
Environment	---	1	---	1
Manpower - Labour	2	---	3	2
Statistics	---	---	---	---
Welfare	1	---	1	2
Health	2	2	1	1
Industry and Trade	2	---	1	2
Urban Affairs	1	2	1	1
Justice and Laws	3	2	1	2
Consumer Affairs	---	---	---	3
Communications	3	---	1	2
Native Affairs	---	---	---	---
Miscellaneous	2	1	---	2
TOTAL	25	22	27	35

APPENDIX E

FINANCIAL DATA RELATING
TO ESTABLISHED PROGRAMS
FINANCING ARRANGEMENTS

Table XV

ESTABLISHED PROGRAMS FINANCING BY COMPONENT

(Millions of Dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. Basic Cash Payment											
1977-78	80.5	17.5	120.2	100.0	898.6	1210.4	148.0	135.7	266.8	365.4	3343.1
1978-79	90.5	19.6	134.6	112.8	1003.7	1363.8	165.3	152.9	302.8	415.9	3761.9
1979-80	101.3	22.1	150.3	126.7	1116.8	1530.8	184.2	171.5	342.2	471.1	4217.5
1980-81	112.2	24.4	166.4	140.9	1231.4	1702.2	203.2	190.6	382.4	530.1	4684.8
1981-82	123.7	27.0	182.9	155.7	1348.3	1880.3	222.7	210.5	426.4	591.6	5168.9
B. Transitional Cash Payment											
1977-78	6.8	1.5	10.1	8.4	75.8	0	12.5	11.4	10.5	0	137.0
1978-79	8.4	1.8	12.6	10.5	93.7	0	15.4	14.3	16.1	0	172.9
1979-80	11.2	2.4	16.7	14.1	124.0	0	20.5	19.0	25.7	0	233.7
1980-81	11.7	2.5	17.3	14.6	127.8	0	21.1	19.8	28.2	0	243.0
1981-82	11.7	2.5	17.2	14.7	127.1	0	21.0	19.8	29.8	0	243.9

Table XV - continued

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
					C. Levelling Cash Payment						
1977-78	-10.5	-3.4	-8.3	-13.8	-8.6	+0.8	-10.6	-15.5	+4.8	-39.0	-104.1
1978-79	-6.1	-1.9	-4.6	-7.8	-4.8	0.7	-5.9	-8.7	4.1	-22.2	-57.3
1979-80	0	0	0	0	0	0.5	0	0	3.1	0	3.6
1980-81	0	0	0	0	0	0.3	0	0	1.7	0	2.0
1981-82	0	0	0	0	0	0	0	0	0	0	0
					D. Total Cash Transfer						
1977-78	70.8	14.3	113.1	87.2	543.5	1106.1	138.9	121.6	261.4	295.3	2751.8
1978-79	89.8	18.9	138.1	111.8	641.7	1312.0	169.3	153.5	312.6	378.1	3325.8
1979-80	112.5	24.5	167.0	140.8	763.4	1531.3	204.7	190.5	371.0	471.0	3977.4
1980-81	123.9	26.9	183.7	155.5	825.6	1702.5	224.3	210.4	413.3	530.1	4396.2
1981-82	135.4	29.5	200.1	170.4	881.2	1880.3	243.7	230.3	456.2	591.6	4818.6
					E. 13.5 Personal Income Tax Points						
1977-78	36.9	7.3	70.2	51.7	1081.9	1213.6	106.4	95.1	227.6	363.5	3254.2
1978-79	41.1	8.1	77.9	57.6	1199.8	1351.8	117.9	105.9	254.4	407.0	3621.5
1979-80	45.1	8.9	85.3	63.3	1311.8	1484.4	129.0	116.2	280.4	449.2	3973.6

Table XV - continued

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
1980-81	50.5	10.0	95.6	71.0	1466.3	1666.3	144.3	130.5	315.9	506.9	4457.3
1981-82	56.4	11.2	106.6	79.4	1632.9	1863.7	160.8	145.9	354.5	569.9	4981.3
F. Associated PIT Equalization											
1977-78	32.0	7.7	32.7	33.9	80.7	---	20.3	21.0	---	---	228.3
1978-79	35.5	8.5	36.0	37.9	86.6	---	22.0	23.6	---	---	250.1
1979-80	38.9	9.4	39.3	41.7	91.4	---	23.6	25.9	---	---	270.3
1980-81	43.5	10.4	43.8	47.0	98.6	---	25.9	29.2	---	---	298.4
1981-82	48.6	11.7	48.6	52.7	105.7	---	28.3	32.7	---	---	328.3
G. 1 Corporate Income Tax Points											
1977-78	2.0	0.4	3.6	3.2	42.9	86.0	7.3	5.4	28.7	21.5	201.0
1978-79	2.2	0.4	4.1	3.6	48.2	96.7	8.2	6.0	32.3	24.2	225.9
1979-80	2.5	0.5	4.6	4.0	54.0	108.2	9.2	6.7	36.1	27.1	252.9
1980-81	2.7	0.5	5.0	4.3	58.6	117.6	10.0	7.3	39.3	29.4	274.7
1981-82	2.9	0.5	5.3	4.6	62.8	126.0	10.7	7.8	42.1	31.5	294.4

Table XV - continued

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
				H. Associated CIT Equalization							
1977-78	2.9	0.7	3.6	2.8	11.1	---	1.6	2.8	---	---	25.5
1978-79	3.2	0.8	4.0	3.2	12.0	---	1.7	3.2	---	---	28.1
1979-80	3.6	0.9	4.4	3.6	13.0	---	1.8	3.5	---	---	30.8
1980-81	3.9	0.9	4.8	3.9	13.6	---	1.9	3.9	---	---	32.9
1981-82	4.2	1.0	5.1	4.2	14.0	---	1.9	4.1	---	---	34.5
					i. Total Tax Transfer						
1977-78	73.8	16.1	110.1	91.6	1216.6	1299.6	1356.6	124.3	256.3	385.0	3709.0
1978-79	82.0	17.8	122.0	102.3	1346.6	1448.5	149.8	138.7	286.7	431.2	4125.6
1979-80	90.1	19.7	133.6	112.6	1470.2	1592.6	163.6	152.3	316.5	576.3	4527.5
1980-81	100.6	21.8	149.2	126.2	1637.1	1783.9	182.1	170.9	355.2	536.3	5063.3
1981-82	112.1	24.4	165.6	140.9	1815.4	1989.7	201.7	190.5	396.6	601.4	5638.5

Source: Department of Finance, Minutes of Proceedings and Evidence of the Standing Committee on Finance, Trade and Economic Affairs, issue No. 23, Tuesday, March 8, 1977.

TABLE XVI

COMPARISON OF ENTITLEMENTS AND ESTIMATES FOR

TOTAL PROVINCIAL ESTABLISHED PROGRAMS FINANCING PAYMENTS UNDER PART VI OF THE FISCAL ARRANGEMENTS ACT, 1979-80

(Millions of Dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
Basic Cash Payment	104.6 [1]	22.4	154.4	127.9	1147.0	1552.7	188.4	174.1	365.4	468.1	4317.2
	(101.3) [2]	(22.1)	(150.3)	(126.7)	(1116.8)	(1530.8)	(184.2)	(171.5)	(342.2)	(471.1)	(4217.5)
Transitional Cash Payment	27.7	5.9	40.8	33.8	303.3	281.0	49.8	46.6	40.0	68.6	899.3
	(11.2)	(2.4)	(16.7)	(14.1)	(124.0)		(20.5)	(19.0)	(25.7)	(0)	(233.7)
Levelling Cash Payment	0	0	0	0	8.4	0	0	0	4.2	0	12.6
	(0)	(0)	(0)	(0)	(0)	(0.5)	(0)	(0)	3.1	(0)	(3.6)
Quebec Abatement [3]					-412.3						-412.3
TOTAL CASH TRANSFER [4]	132.2	28.4	195.2	161.8	1046.4	1833.7	238.2	220.7	409.6	536.7	4816.8
	(112.5)	(24.5)	(167.0)	(140.8)	(763.4)	(1531.3)	(204.7)	(190.5)	(371.0)	(471.0)	(3977.4)
13.5 P.I.T. Points	39.7	7.9	71.9	54.7	720.7	1180.4	105.2	94.1	279.7	372.4	2936.3
	(45.1)	(8.9)	(85.3)	(63.3)	(1311.8)	(1484.4)	(129.0)	(116.2)	(280.4)	(449.2)	(3973.6)
P.I.T. Equalization	31.4	7.3	33.1	32.2	59.1	0	22.9	24.4	0	0	210.4
	(38.9)	(9.4)	(39.3)	(41.7)	(91.4)	(0)	(23.6)	(25.9)	(0)	(0)	(270.3)

Table XVI - continued

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
I.C.I.T. Point	2.0	0.4	3.7	3.1	48.7	91.3	9.0	9.0	45.8	27.1	241.0
	(2.5)	(0.5)	(4.6)	(4.0)	(54.0)	(108.2)	(9.2)	(6.7)	(36.1)	(27.1)	(252.9(
C.I.T. Equalization	3.8	.8	4.9	4.0	15.3	0	1.5	0	0	0	30.3
	(3.6)	(0.9)	(4.4)	(3.6)	(13.0)	(0)	(1.8)	(3.5)	(0)	(0)	(30.8)
Quebec Abatement [3]					412.3						412.3
TOTAL TAX TRANSFER [4]	76.9	16.5	113.6	941.1	1256.0	1271.7	138.6	127.5	325.5	399.5	3830.3
	(90.1)	(19.7)	(133.6)	(112.6)	(1470.2)	(1592.6)	(163.7)	(152.3	(316.5)	(476.3)	(4527.5)
TOTAL CASH AND TAX	209.2	44.9	308.8	255.9	2302.4	3105.4	376.9	348.3	735.1	936.2	8647.1
	(202.6)	(44.2)	(300.6)	(253.4)	(2233.6)	(3123.9)	(368.8)	(342.8)	(687.5)	(948.0)	(8504.9)

Source:

Department of Finance, Government of Canada

(1) Entitlements for 1979-80 on Established Programs Financing, Advance Calculation 1979-80, Federal-Provincial Relations Division, Department of Finance, December 19, 1978.

(2) Estimates of Entitlements for 1979-80 made in 1977, Minutes of Proceedings and Evidence of the Standing Committee on Finance, Trade and Economic Affairs, Issue No. 23, Tuesday, March 8, 1977.

(3) Quebec Receives a Special Abatement of 8.5 Personal Income Tax Points on a Fiscal Year Basis for Hospital Insurance, Medicare and Post-Secondary Education

(4) The general trend shows that the federal cash transfers were much greater than originally projected. This is largely due to the fact that the tax transfer portion generated much less than originally expected.

Table XVII

COMPARISON OF ESTABLISHED PROGRAMS FINANCING (CASH AND TAX TRANSFER)

PROJECTED BY PROVINCES IN JOINT PROPOSAL AND BY FEDERAL GOVERNMENT

1977-78 to 1981-82

(Millions of Dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
1977-78 (Prov.)	151.2	32.8	225.5	187.7	1686.5	2272.2	277.8	254.7	505.5	685.7	6279.6
(Fed.)	144.6	30.4	223.2	178.8	1760.1	2405.7	274.5	245.9	517.7	680.3	6460.8
1978-79 (Prov.)	169.4	36.7	252.1	211.3	1879.8	2554.7	309.8	286.3	571.2	779.0	7050.2
(Fed.)	171.8	36.7	260.1	214.1	1988.3	2760.5	319.1	292.2	599.3	809.3	7451.4
1979-80 (Prov.)	190.4	41.4	282.7	238.1	2099.7	2878.6	346.2	322.4	646.5	886.9	7933.0
(Fed.)	202.6	44.2	300.6	253.4	2233.6	3123.9	368.8	342.8	687.5	948.0	8504.9
1980-81 (Prov.)	211.9	46.2	314.0	266.0	2323.9	3213.0	383.5	359.8	725.2	1000.4	8844.0
(Fed.)	224.5	48.7	332.9	281.7	2462.7	3486.4	406.4	381.3	768.5	1066.4	9459.5
1981-82 (Prov.)	234.3	51.1	346.3	295.0	2554.4	3562.5	421.8	398.8	807.9	1120.8	9792.9
(Fed.)	247.5	53.9	365.7	311.3	2696.6	3870.0	445.4	420.8	852.8	1193.0	10457.1

Source: Provincial Projections are taken from Table 2: Established Programs Financing, in _Federal-Provincial Financial Arrangements, The Provincial Proposal_, December 6-7, 1976. Federal Projections are taken from Department of Finance, House of Commons Standing Committee on Finance, Trade and Economic Affairs, Minutes of Proceedings, Tuesday, March 8, 1977, Table I, p. 23A:2.

Table XVIII

TOTAL FEDERAL CONTRIBUTIONS TO THE THREE ESTABLISHED PROGRAMS UNDER SHARED-COST ARRANGEMENTS AND ESTABLISHED PROGRAMS FINANCING 1976-77 to 1981-82

(millions of dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. Shared-Cost Arrangements											
1976-77	117.6	23.9	187.5	145.1	1451.0	1952.0	229.5	200.9	424.0	537.7	5269.2
1977-78	133.3	26.7	208.4	161.5	1625.6	2194.5	255.4	223.0	471.0	600.7	5900.1
1978-79	149.5	29.7	230.6	180.3	1810.6	2453.1	283.9	246.3	525.4	673.4	6582.8
1979-80	165.2	32.8	253.7	199.7	1984.9	2716.2	311.5	271.8	584.6	752.8	7273.2
1980-81	181.5	36.2	277.3	220.0	2163.0	2986.1	340.6	298.4	646.8	837.1	7987.0
1981-82	197.4	39.3	300.4	239.8	2337.3	3251.0	368.6	324.7	707.6	920.1	8686.2
B. Established Programs Financing											
1977-78	144.6	30.4	223.2	178.8	1760.1	2405.7	274.5	245.9	517.7	680.3	6460.8
1978-79	171.8	36.7	260.1	214.1	1988.3	2760.5	319.1	292.2	599.3	809.3	7451.4
1979-80	202.6	44.2	300.6	253.4	2233.6	3123.9	368.8	342.8	687.5	948.0	8504.9
1980-81	224.5	48.7	332.9	281.7	2462.7	3486.4	406.4	381.3	768.5	1066.4	9459.5
1981-82	247.5	53.9	365.7	311.3	2696.6	3870.0	445.4	420.8	852.8	1193.0	10457.1

Source: Minutes of Proceedings and Evidence of the Standing Committee on Finance, Trade and Economic Affairs, Issue No. 23, Tuesday, March 8, 1977.